# MARK'S WORK WEARHOUSE LTD.



delivering value...

ANNUAL REPORT FOR THE YEAR ENDED JANUARY 27, 2001

# Delivering Value

Our theme for this year's annual report is "Delivering Value", and we have chosen it as a theme for two reasons. First of all, it captures the essence of our daily activities. Our products, stores and people have a requirement to deliver value each and every day to our customers in order for us to be successful in the very competitive arena of apparel and footwear retailing. Secondly, we know that by delivering value to our customers they will reward us, and we will continue to produce the results that create value for all of our stakeholders.

**The staff of the Newmarket Mark's Work Wearhouse store delivered over $5.0 million in sales, the first store in our history to reach that milestone.**

In this report, the output of our efforts to deliver value to our customers is discussed in terms of the Company's financial and operational performance. We will describe our market position within Canada's apparel and footwear sectors, and the factors that we believe are influencing the future of our industry. We will also speak to our Strategic Plan, and provide a forecast of earnings for the current year. In other words, we will share with you how we expect to continue to deliver value to our customers and stakeholders into the future.

With three divisions and over 300 stores from coast to coast, Mark's Work Wearhouse Ltd. has significant market share in each of our major categories of business, and we are one of the largest specialty retailers in the country. Our stores offer men's and ladies' clothing, footwear and accessories for industrial work use, for business casual use, and for after work and recreational use. We also have a strong and growing Business-to-Business operation, and sell our products on line at www.marks.com.

Mark's shares are traded on the Toronto Stock Exchange ("MWW" or "Mark Wrk").

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# Consolidated Financial Highlights

Based on the growth initiatives we have identified and the skills of our employees we are forecasting a 20% increase in earnings per share in fiscal 2002 on top of the 30% increase we just delivered.

## Summary



By creating value for our customers, we create value for our investors. The defining measurement of a retailer's relationship with its customers is its sales growth compared to the rest of the industry, and during the year ended January 27, 2001, we continued our long term trend of outperforming the market. Our sales growth was much better than both the industry in general and our sector in particular, and our book value increased from $2.14 to $2.44 per share. You will find a comprehensive review of operations and complete financial information in the balance of this annual report.

### FISCAL 2001 HIGHLIGHTS*

- The Company's pre-tax earnings increased by 34.2% to $16.5 million from $12.3 million.
- The Company's EPS increased by 30.4% to 30 cents from 23 cents.
- The Company's EBITDA increased by 19.1% to $31.3 million from $26.3 million.
- The Company's CFPS increased by 11.5% to 68 cents from 61 cents.
- The Company delivered 99.9% of its optimistic pre-tax earnings forecast, 99.0% of its optimistic sales forecast and 96.8% of its optimistic EPS forecast.
- With approximately the same number of stores, the Company grew its total system sales by 11.5% to $488.0 million from $437.7 million, which is over four times the total apparel sales growth in Canada in calendar 2000 over calendar 1999 as reported by Trendex.
- The Company improved its consolidated corporate store gross margin rate by 50 basis points to 41.1% from 40.6%.
- The Company recorded exceptional corporate store sales growth in ladies' wear (64.1%) and Business-to-Business (27.7%).
- The Mark's Division produced its first store with sales over the $5.0 million sales barrier and has another half dozen approaching that point.
- The Work World Division improved its EBITDA by $1.0 million.
- The Company's share price outperformed the merchandising, specialty store and department store indexes in fiscal 2001.
- In calendar 2000, the Company was awarded the National Post Gold Medal for best annual report in the merchandising category and the Investor Relations Magazine - Grand Prix Trophy for best overall investor relations for small-cap companies.
- The Company's President and Chief Executive Officer was selected as Chairman of the Retail Council of Canada.

* Percent calculated on unrounded numbers.

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| (all dollar amounts in thousands, except per share) | 52 weeks ended January 25, 1997 | 53 weeks ended January 31, 1998 | 52 weeks ended January 30, 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 | Forecast Range* 52 weeks ended January 26, 2002 Conservative | Optimistic |
|---|---|---|---|---|---|---|---|
| Sales | | | | | | | |
| Corporate | $ 220,902 | $ 252,016 | $ 283,401*** | $ 314,547*** | $ 363,870 | $ 413,188 | $ 427,525 |
| Franchise | $ 82,854** | $ 150,191 | $ 134,067*** | $ 123,123*** | $ 124,109 | $ 123,668 | $ 127,349 |
| Total system | $ 303,756 | $ 402,207 | $ 417,468 | $ 437,670 | $ 487,979 | $ 536,856 | $ 554,874 |
| Number of retail stores | | | | | | | |
| Corporate | 108 | 118 | 165*** | 177 | 194 | 209 | 209 |
| Franchise | 183** | 170 | 134*** | 131 | 115 | 114 | 114 |
| Total system | 291 | 288 | 299 | 308 | 309 | 323 | 323 |
| EBITDA | $ 14,582 | $ 21,831 | $ 22,738 | $ 26,305 | $ 31,340 | $ 33,656 | $ 36,231 |
| Pre-tax earnings after goodwill amortization | $ 8,310 | $ 12,404 | $ 10,996**** | $ 12,310 | $ 16,526 | $ 15,766 | $ 18,237 |
| Net earnings | $ 3,923 | $ 6,551 | $ 5,752 | $ 6,387 | $ 8,180 | $ 8,183 | $ 9,465 |
| Net earnings per Common Share – basic | 16¢ | 24¢ | 21¢ | 23¢ | 30¢ | 31¢ | 36¢ |
| Weighted average number of Common Shares outstanding (000s) | 24,976 | 27,058 | 27,475 | 27,847 | 27,597 | 26,012 | 26,012 |
| Shareholders' equity at end of period | $ 36,884 | $ 46,746 | $ 53,306 | $ 59,571 | $ 64,721 | $ 69,478 | $ 70,760 |
| Funds flow from operations | $ 7,315 | $ 13,609 | $ 15,815 | $ 16,876 | $ 18,881 | $ 21,029 | $ 22,312 |
| Funds flow from operations per Common Share (CFPS) | 29¢ | 50¢ | 58¢ | 61¢ | 68¢ | 81¢ | 86¢ |
| Current ratio | 1.55/1 | 1.71/1 | 1.70/1 | 1.77/1 | 1.75/1 | 1.87/1 | 1.85/1 |
| Total liabilities-to-equity ratio | 1.57/1 | 1.26/1 | 1.49/1 | 1.40/1 | 1.43/1 | 1.26/1 | 1.28/1 |
| Average funded debt-to-equity ratio | 0.51/1 | 0.71/1 | 0.92/1 | 0.94/1 | 0.84/1 | 1.11/1 | 1.03/1 |
| Rent, other operating leases, computer services, distribution activities and interest on long-term debt (including capital leases) coverage | 1.45 | 1.58 | 1.47 | 1.42 | 1.50 | 1.39***** | 1.45***** |
| Return on average capital employed | 23% | 26% | 19% | 19% | 21% | 20% | 23% |
| Return on average equity | 11% | 16% | 12% | 11% | 13% | 12% | 14% |
| Total system same-store sales increase | 4% | 8% | 4% | 0% | 10% | 5% | 8% |

* The forecast range set by the conservative and optimistic forecasts is based upon management's judgment and on assumptions outlined on page 18, some or all of which may prove incorrect. Accordingly, actual results achieved during the forecast period will inevitably vary from those forecast, and variations may be material.
** Includes two months' sales from Work World franchise stores from the December 1, 1996 acquisition date forward in fiscal 1997.
*** Two Mark's and 31 Work World franchise stores were converted to corporate stores in the latter part of fiscal 1999.
**** Includes $2,961,000 provision for closure of US pilot stores in fiscal 1999.
***** Effective February 2001, the Company outsourced its distribution activities. See Goal 6 under Financial Goals and Note 19 to the Consolidated Financial Statements.

# MARK'S WORK WEARHOUSE LTD.

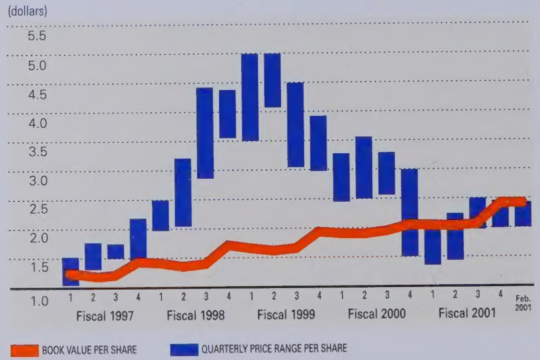
## Quarterly Financial Information

| (dollar amounts in thousands, except per share) | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|---|---|---|---|---|---|
| **Fiscal 2001** | | | | | |
| Corporate and franchise sales | $ 87,848 | $ 100,978 | $ 117,449 | $ 181,704 | $ 487,979 |
| Corporate sales | $ 64,568 | $ 74,651 | $ 88,077 | $ 136,574 | $ 363,870 |
| Earnings (loss) before income taxes and goodwill amortization | $ (1,045) | $ (809) | $ 2,370 | $ 16,558 | $ 17,074 |
| Net earnings (loss) | $ (737) | $ (589) | $ 1,426 | $ 8,080 | $ 8,180 |
| Earnings (loss) per Common Share before goodwill amortization | (2)¢ | (2)¢ | 6¢ | 30¢ | 32¢ |
| Earnings (loss) per Common Share – basic | (3)¢ | (2)¢ | 5¢ | 30¢ | 30¢ |
| **Fiscal 2000** | | | | | |
| Corporate and franchise sales | $ 79,407 | $ 87,931 | $ 107,175 | $ 163,157 | $ 437,670 |
| Corporate sales | $ 57,235 | $ 62,736 | $ 77,146 | $ 117,430 | $ 314,547 |
| Earnings (loss) before income taxes and goodwill amortization | $ (1,853) | $ (554) | $ 1,884 | $ 13,208 | $ 12,685 |
| Net earnings (loss) | $ (1,193) | $ (461) | $ 874 | $ 7,167 | $ 6,387 |
| Earnings (loss) per Common Share before goodwill amortization | (4)¢ | (1)¢ | 3¢ | 26¢ | 24¢ |
| Earnings (loss) per Common Share – basic | (4)¢ | (2)¢ | 3¢ | 26¢ | 23¢ |
| **Fiscal 1999** | | | | | |
| Corporate and franchise sales | $ 73,292 | $ 79,419 | $ 101,697 | $ 163,060 | $ 417,468 |
| Corporate sales | $ 48,419 | $ 51,686 | $ 67,336 | $ 115,960 | $ 283,401 |
| Earnings (loss) before income taxes and goodwill amortization | $ (1,599) | $ (1,936) | $ 2,105 | $ 12,742* | $ 11,312* |
| Net earnings (loss) | $ (1,131) | $ (1,122) | $ 1,025 | $ 6,980 | $ 5,752 |
| Earnings (loss) per Common Share before goodwill amortization | (4)¢ | (4)¢ | 4¢ | 26¢ | 22¢ |
| Earnings (loss) per Common Share – basic | (4)¢ | (4)¢ | 4¢ | 25¢ | 21¢ |

* Includes a $2,961,000 provision for closure of the US pilot stores in fiscal 1999.

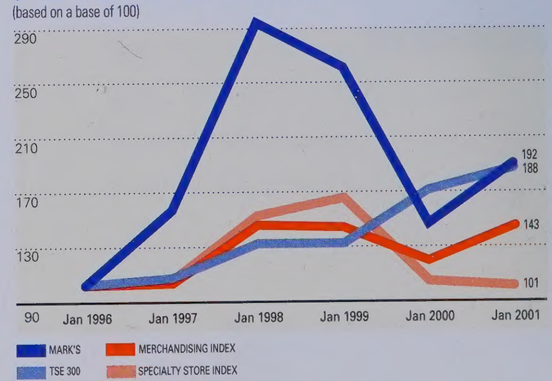
### 5-YEAR MARKET VALUE BY QUARTER

(dollars)



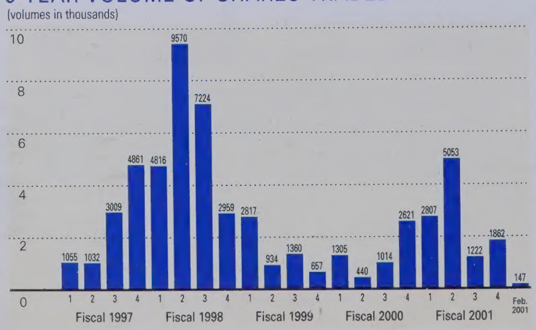

### 5-YEAR SHARE PERFORMANCE

(based on a base of 100)




### 5-YEAR VOLUME OF SHARES TRADED

(volumes in thousands)



# Mission Statement

### Our mission is to grow consistently as a mature and stable enterprise known for:

- Being the most customer-sensitive and responsive specialty retail organization in the markets within which we operate;
- Having a people-oriented work environment where our people are allowed the greatest possible freedom to carry out their responsibilities, take ownership of what they do, have fun, learn and earn fair financial rewards; and
- Providing a superior financial return to investors as a result of being customer-driven and people-oriented.

### Core Values

The Company's divisions are committed to building their respective customer bases and creating shareholder value over time through increasing revenues and earnings, while honoring the Company's three Core Values:

- Product integrity;
- Respect for people; and
- Continuous improvement.

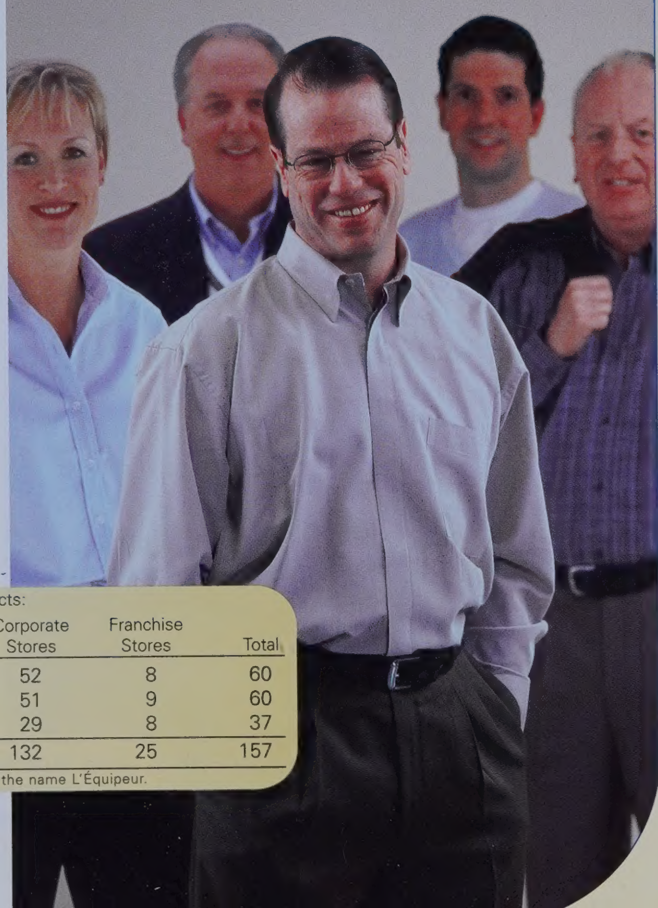
## MARK'S DIVISION (L'ÉQUIPEUR)

Mark's Work Wearhouse Division (Mark's Division) comprises 157 stores, including 22 L'Équipeur stores in Quebec. Mark's provides work apparel for both business casual and industrial consumers in 10,000 square foot destination stores. In addition, the division is a market leader in merchandise designed for casual and outdoor pursuits — market share exceeds most national brands across all age, gender and income levels.

Mark's is focused on creating value for its Canadian consumers by broadening its base of "On Concept" stores through new store openings and relocations of existing stores and by enhancing the merchandise assortments in existing stores.

The division is increasing its square footage and expanding its assortments dedicated to women's wear, while maintaining its market leadership position in men's business casual wardrobes, industrial apparel and casual and industrial footwear through continuous product development and innovation.

Mark's is also focused on communicating that value to its customers through the creation of ever-better and more frequent marketing campaigns. Further, Mark's is creating incremental value for its customers with its Business-to-Business initiatives and the continued development of its e-commerce capabilities.



**Mark's Division's Top Team** *(L to R)*
**Wendy Bennison, Jim Killin, Paul Wilson, Dale Trybuch, Rick Harrison**

The following chart shows how the division breaks down into districts:

| | Regions | Districts | Corporate Stores | Franchise Stores | Total |
|---|---|---|---|---|---|
| **Mark's Work Wearhouse (L'Équipeur)** | Western Canada/NWT | 8 | 52 | 8 | 60 |
| | Ontario | 9 | 51 | 9 | 60 |
| | Quebec/Atlantic* | 5 | 29 | 8 | 37 |
| | Total | 22 | 132 | 25 | 157 |

* Mark's 19 corporate and three franchise stores in Quebec operate under the name L'Équipeur.

**Business-to-Business Division's Top Team** *(L to R)*
**Harry Bekkema, Marcel Desrochers, Jim Haigh, Ron McVeetors, Dave Reagan**

## MARK'S (L'ÉQUIPEUR) BUSINESS-TO-BUSINESS

Mark's Division, Business-to-Business employs a national sales force of over 40 professional sales account managers serving major corporations, the public sector and small businesses — and more account managers will be added as the operation grows.

Sales in this operating unit have risen over 50% in the past two years. This operating unit creates value by developing uniform programs and creating customized fulfillment solutions for its customers. In addition to continuing to add corporate accounts this operating unit is also starting to pursue with more vigor, the promotional corporate wear part of this industry. These Business-to-Business activities also deliver value in the form of incremental sales to the Mark's stores by introducing the Business-to-Business consumer to the stores and the stores' entire assortment.

## WORK WORLD DIVISION

There are 144 Work World stores coast to coast across Canada. The stores are typically 3,000 square feet in size located in the best retail location in the market place. That could mean a mall, a strip centre or on a main street depending on the market. The stores are bright, well stocked and easy to shop. Work World generally focuses on the smaller towns and cities across Canada. There is a real need in these markets for a retailer that offers good quality clothing and footwear at a fair price. The target customer is 25 to 60 years old and it does not matter if they work at a construction site, a golf course, a lab, a casual business environment, indoor or outdoor, Work World can accommodate their seasonal clothing and footwear requirements.

In fiscal 2001, the Work World division dramatically strengthened both the buying and store operations teams. The division doubled the number of buyers and added a vice president of store operations. In addition, the district manager team went through some changes so that over half of the group is now new to the organization. The experience of the new buyers and district managers added to the strength of the existing team has already shown positive results and means Work World is now better poised to take on the future.

The following chart shows how the division breaks down into districts.

| | Regions | Districts | Corporate Stores | Franchise Stores | Total |
|---|---|---|---|---|---|
| **Work World Division** | British Columbia/Yukon | 4 | 24 | 29 | 53 |
| | Prairies/NW Territories | 3 | 13 | 36 | 49 |
| | Subtotal | 7 | 37 | 65 | 102 |
| | Ontario | 3 | 13 | 20 | 33 |
| | Atlantic | 1 | 4 | 5 | 9 |
| | Total | 11 | 54 | 90 | 144 |

**Work World Division's Top Team** *(L to R)*
**Mike Strachan and Roy Jopling**



The merchandise assortments have continued to evolve and this was reflected in the 5.9% same store sales increase achieved in fiscal 2001, the largest since the division was purchased four years ago. In fiscal 2002, there are a number of specific sales initiatives aimed at continuing to drive the sales growth. In fiscal 2001, the gross margin improved and is on track to achieve the 40% target called for in the Strategic Plan. An increased blend of private label products and a focus on direct sourcing will continue to drive the improvements.

Currently, 70.8 % of the division's stores are in western Canada. Work World continues to see an opportunity to expand mainly into Ontario. Any new stores opened will be corporate as part of the continuing "Corporate Store Strategy". In fiscal 2001, the corporate store results improved considerably. This strengthens the division's belief that this strategy will deliver stronger financial results in the future. The franchise performance and participation also continues to improve. Over time, the number of corporate stores will be increased through the opening of new stores and the buying back of successful franchise stores when they are offered for sale.

## DOCKERS® STORES DIVISION

The first five test stores opened in fiscal 2000 — three more test stores were opened in fiscal 2001. Test stores are 3,000 to 4,000 retail square feet in major malls in large and mid-size markets.

Our objective is to expand upon the existing positioning of the DOCKERS® brand for classically and fashionably styled khaki pants, while enhancing the tops and related wardrobe items all targeted to urban customers. Specifically, the target customers are men and women whose personal taste level is classic in nature and who value quality and fit in their clothing. The three core businesses that the DOCKERS® stores focus on are weekend casual, business casual and golf-inspired apparel and we believe that our uniqueness lies in the fact that no specialty retailer currently targets this consumer for these apparel needs.

While we have the opportunity to expand to as many as 120 stores, after completion of the test phase, the operative word today is "test" and the Company is not contemplating any store roll outs in fiscal 2002.

**DOCKERS® Stores Division's Top Team** *(L to R)*
**Peter Roxborough, Cathy Prosser, Timothea Wiwcharyk**

(Back, L to R) **Randy Wiebe, John Murphy, Mike Lambert, Robin Lynas,** (Centre, L to R) **Michael Strachan, Garth Mitchell, Cathy Prosser, Linda Mathiesen,** (Front L to R) **Paul Wilson, Michel St. Jean**

## President's Message to Shareholders

It is a pleasure to report on the best year in our history. Our total system sales were 12% over the previous year and 99% of our plan. Our pre-tax earnings of $16.5 million were exactly on plan and 33% higher than our previous best year. Our share price at year-end this year was 33% higher than at year-end last year.

It is very tempting to end my conversation with shareholders right now, and not say another word for fear of somehow taking the glow off the first paragraph. However, with three divisions, 309 stores, an Internet business and a Business-to-Business operation, there are obviously many highlights as well as a few lowlights to talk about.

Highlights for the year are dominated by the terrific sales and profit performance of our largest division, the Mark's Division. Same store sales growth for the year was over five times industry averages and in short summary, this occurred because we planned aggressively in some specific areas of the business where we believed we had opportunities and we executed those plans well. For example, we planned to increase our women's business sales by over 50%, and we achieved 58%. We planned a 30% sales increase in our Business-to-Business operation, and we achieved 28%. During the year, our Newmarket store blasted through the milestone of $5 million in sales, and several other stores

are knocking on that door. Another significant highlight was the $1 million improvement in EBITDA in the Work World Division, a credit to the new management team and to improved merchandise assortments.

Two lowlights were the fourth quarter sales performance of our DOCKERS® Stores, and our share price performance. In the case of DOCKERS®, we did not meet our customers' expectations for both merchandise content and in-stock position of basics. After substantial effort, we are happy to see improvements in both of these areas so far this year. With regards to share price performance, it is true that on a relative basis our year-over-year performance was better than the Department Store Index and the Specialty Store Index. However, trading at a single digit multiple of earnings is very disappointing to us, given our performance relative to the rest of the industry, especially since we make such an effort to communicate our forecasts and results to the market.

Reflecting on this issue helped us determine the theme of this year's report, which is "Delivering Value". We continue to believe that a well-defined business with solid fundamentals, strength in management and a logical and achievable strategic plan for growth will be recognized and rewarded by investors over time. The care, attention to detail, and disclosure that we inject into the creation of this report is intended to demonstrate to both current and potential shareholders that there is value in owning our shares. In addition, as you will discover when you read the report, the value of our Company to investors is not based on wishful thinking or unproven plans. Our value has substance because our customers value us, and choose to do business with us more than eight million times a year, based on their appreciation for our merchandise and our people. We believe this report will demonstrate the details of this value to you.

The happy faces that you see throughout the report are employees, and on behalf of all members of our Board of Directors, I would like to thank them for their dedication and efforts. It is on the basis of their skills that we are forecasting a 20% increase in earnings per share in fiscal 2002, on top of the 30% increase we just delivered.

The MVP award for the year goes to our Newmarket Store. Led by Kim McLean and Keith Lim, their store was the first in the Company's history to crack the $5 million sales barrier. That was an outstanding achievement in a record year for the Company.

Garth Mitchell

Garth Mitchell
President and Chief Executive Officer

# Our technology helps us deliver value

*(L to R)* **Robin Lynas and Ken Bieber – Technology Group**

How is technology helping us "Deliver Value" at Mark's Work Wearhouse? A challenging question because so much is happening.

Looking back into our history, in the early '90s Mark's Work Wearhouse decided to standardize on the world's leading business-processing system, the IBM AS/400. This decision has served us well and we have continued to build our infrastructure around this platform (now the IBM iSeries Server), which now runs the majority of our front-line, back-line, web and client-server systems. Using a single platform has allowed us to standardize on one database system, which means whatever application tool set we use to develop our products the data is always fully integrated into any business system we build.

Take for example our Multi-Channel Retailing e-Business plan. Whether you order your product over the Internet from www.marks.com, purchase the product from one of our conveniently located stores, or decide to use one of our, soon to be installed, in-store kiosks, you always get the product through the same supply-side model. This is mainly due to the fact that all these channels access the same data interactively as you make your purchasing decision. No matter what channel you choose to shop we use the same inventory and pricing data ensuring a consistent brand message. We then process your sale through the same Point-of-Sale application and either let you walk out of the store with your product or ship it directly to you in a timely fashion.

On the Business-to-Business side we have always supported our corporate business customers with an exceptional corporate business sales staff, that used internal business systems to manage corporate uniform programs and multi-tiered account billing. We are now porting this all to our e-Business infrastructure that will allow corporate accounts to manage their own personalized uniform programs on-line, match purchases to their employees, and will eventually lead to on-line billing. Add to this the fact we have already launched our web based healthwear site, which caters to the needs of all those in the medical profession, and you can see, that by spending the time to build and standardize our systems infrastructure, it has allowed us to continue to leverage existing business processes.

As always our future plans are ambitious but realistic. We are currently switching over our telecommunications network from the older frame relay technology to managed high-speed Internet access wherever the service is affordable and available. This allows us to move that consistent data we have been talking about, up to ten times faster. And you should keep your eyes on our stores where portable cash registers and wireless technology will likely be the norm in the next two to three years.

All in all a challenging situation. But remember, it is all driven by our customers' needs and is meant to support the people who really make it happen, our store staff.

# Human Resources focused on value

Superior business results depend on quality products, excellent customer service and strong and efficient front-line and back-line operations, which, in turn, depend on a well-trained staff who feel connected to and proud of the company.

At Mark's Work Wearhouse, we create this sense of connection and pride not by focusing solely on the bottom line, but on the people who create it.

Today, we operate in a world where we often don't see beyond financial measurements to the other important organizational factors, when we describe our worth.

Our core values noted under "Mission Statement" make up those other important organizational factors that guide us and our people in meeting the demands of an ever-challenging environment.

In addition to our core values and internal Code of Conduct, our organization values:

- Inspiration – having a sense of vision and purpose and knowing that each person's role provides a chance to do important things really well;
- Tasks – providing organizational as well as technical knowledge;
- Position – acknowledging effort, accomplishment and ability, and linking them to opportunities that create a sense of belonging; and
- Relationship – giving personal and emotional backing to our people and letting others have ownership and influence within the organization.

At Mark's Work Wearhouse, we firmly believe that these core values, internal Code of Conduct and other values practiced by our employees help make our people and the Company a value-driven organization that is able to continuously redefine itself both in the marketplace and within our corporation in order to maintain our leadership position.

**Human Resources Group** *(Front)* **Linda Mathiesen** *(Back, L to R)* **Sherri Wright Schweitz, Deb Hunter, Catherine McDade,**

# Senior Management Performance

| Senior Officer | Business Objective **Fiscal 2001** | Business Objective Result **Fiscal 2001** |
| --- | --- | --- |
| **Garth Mitchell**<br>President and<br>Chief Executive Officer | Consolidated pre-tax profit of $16.5 million | Consolidated pre-tax profit of $16.5 million |
| **Mike Lambert**<br>Chief Financial Officer | Major transaction or series of transactions that cause the Company's share price to increase by 30% for a defined period | Business Objective was not achieved. |
| **Paul Wilson**<br>President and<br>Chief Operating Officer,<br>Mark's Division | Divisional pre-tax profit growth 15% | Divisional pre-tax profit growth 15% |
| **Rick Harrison**<br>Senior Vice President,<br>Merchandising, Mark's Division | Divisional gross margin dollars of $129.1 million and inventory turnover 2.2 | Divisional gross margin dollars of $133.1 million and inventory turnover 2.1 |
| **Michael Strachan**<br>Chief Operating Officer,<br>Work World Division | Divisional pre-tax up $1.5 million | Divisional pre-tax up $0.4 million |
| **Roy Jopling**<br>Vice President, Operations<br>Work World Division<br>(Roy joined the Work World Division in June 2000) | Not applicable | Not applicable |
| **Cathy Prosser**<br>General Manager,<br>DOCKERS® Stores Division | Divisional pre-tax up $0.7 million | Divisional pre-tax decreased |
| **John Murphy**<br>Senior Vice President,<br>Treasurer and Secretary | Consolidated 12-month rolling funded debt-to-equity ratio 1.08-to-1 with $4.1 million store construction capital lease financing | Consolidated 12-month rolling funded debt-to-equity ratio 0.84-to-1 with $5.8 million store construction capital lease financing |
| **Robin Lynas**<br>Chief Information Officer | Systems Steering Committee projects and department operations and capex on budget | Most of the Systems Steering Committee projects and department operations and capex on budget |
| **Linda Mathiesen**<br>Vice President,<br>Human Resources and<br>Customer Service | Mark's Division total sales dollars per front-line and back-line staff full-time equivalent (including corporate) $243,000 | Mark's Division total sales dollars per front-line and back-line staff full-time equivalent (including corporate) $238,000 |
| **Michel St. Jean**<br>Vice President, Store Design | Planned, new, relocated and refurbished stores at a gross square foot cost of $37, $40 (increased to $50) and $100 in the Mark's, Work World and DOCKERS® Stores Divisions respectively | New relocated and refurbished stores at an average gross square foot cost of $30, $48 and $94 in the Mark's, Work World and DOCKERS® Stores Divisions respectively |
| **Randy Wiebe**<br>Vice President, Controller | Timely and accurate internal and external financial reporting and manage the Company's tax affairs on budget | Timely and accurate internal and external financial reporting and manage the Company's tax affairs on budget |

| Business Objective **Fiscal 2002** | **Fiscal 2002** Key Results and **Fiscal 2001** Key Results Achieved |
|---|---|
| Consolidated pre-tax profit of $18.2 million | Total system sales growth rate double the Canadian sales growth rate for apparel and footwear<br>Company's share price to outperform the Toronto Stock Exchange Specialty Stores Index by 5.0%<br>Both fiscal 2001 Key Results achieved |
| Major transaction or series of transactions that cause the Company's share price to increase by 30% for a defined period | Have signed letters of intent in place for the acquisition of two Mark's Division franchise stores<br>Deliver the $500,000 back-line process review cost savings<br>Both fiscal 2001 Key Results achieved. |
| Divisional pre-tax profit growth 15% | Twelve new stores and six relocated stores by October 15, 2001<br>Fiscal 2001 Key Result achieved |
| Divisional gross margin dollars of $156.0 million at a 41.8% gross margin rate | Divisional inventory turns 2.3<br>Divisional corporate store casual outerwear sales growth 20%<br>Fiscal 2001 Key Result not achieved |
| Divisional pre-tax up $1.3 million | Divisional same store corporate sales increase 12.0%<br>Fiscal 2001 Key Result not achieved |
| Divisional net front-line contribution up $1.7 million | Fall sales growth in ten focus stores 20%<br>Divisional Business-to-Business sales to 3.0% of corporate store sales |
| Divisional pre-tax up $0.9 million | Divisional net front-line contribution up $1.0 million<br>Fiscal 2001 Key Result not achieved |
| Consolidated 12-month rolling funded debt-to-equity ratio 1.03-to-1 with $5.0 million store construction capital lease financing | Renew bank operating credits by May 31, 2001<br>Back-line expense savings of $0.5 million to plan<br>One of the two fiscal 2001 Key Results achieved |
| Systems Steering Committee projects and department operations and capex on budget while keeping the Company technologically current and senior management informed about future retail technology | $0.5 million in revenue or costs savings to plan from continued implementation of e-business strategies<br>Develop a specific template for arrangements with outside software providers<br>One of the two fiscal 2001 Key Results achieved |
| Mark's Division total sales dollars per front-line and back-line staff full-time equivalent (including corporate) $243,000 | Sales training services to increase units per transaction in the western region of the Mark's Division to 2.33<br>Meet new Privacy Act requirements and standards, including hiring a Privacy Officer<br>Both of the fiscal 2001 Key Results achieved |
| Planned new, relocated and refurbished stores at a gross square foot cost of $37 and $45 in the Mark's and Work World Division respectively | Deliver a new store design concept for the Mark's Division store of the future<br>Deliver the new, relocated and renovated store projects that meet divisional substantial completion guidelines on time<br>One of the two fiscal 2001 Key Results achieved |
| Timely and accurate internal and external financial reporting and manage the Company's tax affairs on budget | Deliver $0.25 million in savings in GST, sales, income and capital taxes<br>Deliver enhanced financial reporting for Mark's Division Business-to-Business activity by September 1, 2001<br>One of the two fiscal 2001 Key Results achieved |

# Operational Goals

Operational goals are key items that the Company monitors to gauge its progress towards the achievement of its Strategic Plan and Mission. Operational goals and other indicators also provide data that can be bench marked against our competitors in the industry.

| | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 Optimistic Forecast* | Fiscal 2006 Master Targets** |
|---|---|---|---|---|---|
| **Goal 1: Sales per average retail sq. ft.** | | | | | |
| Mark's Division corporate stores | | | | | |
| Goal | $ 270 | $ 257 | $ 258 | $ 281 | $ 325 |
| Actual and forecast | $ 252 | $ 239 | $ 259 | $ 281 | N/A |
| Total retail sq. ft. of stores with sales greater than $300 per sq. ft. | 269,926 | 289,452 | 440,005 | 506,504 | N/A |
| Number of stores with sales greater than $300 per sq. ft. | 33 | 33 | 47 | 53 | N/A |
| Work World Division corporate stores | | | | | |
| Goal | N/A | $ 262 | $ 235 | $ 244 | $ 302 |
| Actual and forecast | N/A | $ 217 | $ 221 | $ 244 | N/A |
| Total retail sq. ft. of stores with sales greater than $300 per sq. ft. | N/A | 22,169 | 24,906 | 52,400 | N/A |
| Number of stores with sales greater than $300 per sq. ft. | N/A | 9 | 10 | 17 | N/A |
| DOCKERS® Stores Division corporate stores | | | | | |
| Goal | N/A | N/A | $ 446 | $ 387 | —**** |
| Actual and forecast | N/A | N/A | $ 333 | $ 387 | N/A |
| Total retail sq. ft. of stores with sales greater than $500 per sq. ft. | N/A | 2,930 | 0 | 2,930 | N/A |
| Number of stores with sales greater than $500 per sq. ft. | N/A | 1 | 0 | 1 | N/A |
| **Goal 2: Gross margin return on investment (times)** | | | | | |
| Mark's Division corporate stores | | | | | |
| Goal | 1.9 | 1.5 | 1.7 | 1.9 | 2.6 |
| Actual and forecast | 1.5 | 1.6 | 1.8 | 1.9 | N/A |
| Work World Division corporate stores | | | | | |
| Goal | N/A | 0.8 | 0.9 | 1.0 | 1.3 |
| Actual and forecast | 1.1 | 0.9 | 0.9 | 1.0 | N/A |
| DOCKERS® Stores Division corporate stores | | | | | |
| Goal | N/A | N/A | 1.9 | 1.8 | —**** |
| Actual and forecast | N/A | 0.3 | 1.5 | 1.8 | N/A |
| **Goal 3: Front-line contribution as a percentage of corporate store sales** | | | | | |
| Goal (consolidated) – corporate stores | 11.2% | 10.8% | 10.9% | 10.9% | 12.1%*** |
| Actual and forecast | | | | | |
| Mark's Division corporate stores | 10.9% | 12.2% | 12.8% | 12.3% | 13.2% |
| Work World Division corporate stores | 4.0% | (5.1%) | (1.3%) | 4.7% | 6.2% |
| DOCKERS® Stores Division corporate stores | N/A | (52.7%) | (28.2%) | (12.1%) | —**** |
| Consolidated corporate stores*** | 10.3% | 10.1% | 10.5% | 10.9% | 12.1%*** |
| **Goal 4: Franchise royalties and other less franchise bad debts as a percent of franchise sales** | | | | | |
| Mark's Division franchise stores | | | | | |
| Goal | 6.3% | 6.3% | 6.2% | 6.1% | 6.0% |
| Actual and forecast | 6.4% | 6.2% | 6.6% | 6.1% | N/A |
| Work World Division franchise stores | | | | | |
| Goal | 3.9% | 3.9% | 4.0% | 4.1% | 4.1% |
| Actual and forecast | 3.9% | 4.0% | 4.2% | 4.1% | N/A |
| **Goal 5: Inventory turnover (times)** | | | | | |
| Mark's Division corporate stores | | | | | |
| Goal | 2.4 | 2.2 | 2.4 | 2.3 | 3.1 |
| Actual and forecast | 1.9 | 2.0 | 2.1 | 2.3 | N/A |
| Work World Division corporate stores | | | | | |
| Goal | N/A | 1.2 | 1.3 | 1.2 | 1.6 |
| Actual and forecast | 1.1 | 1.0 | 1.2 | 1.2 | N/A |
| DOCKERS® Stores Division corporate stores | | | | | |
| Goal | N/A | N/A | 2.9 | 2.2 | —**** |
| Actual and forecast | N/A | 0.7 | 1.8 | 2.2 | N/A |

N/A Not available or not applicable.

* The reader is cautioned that all forecast data is based upon management's judgment and on assumptions outlined on page 18, some or all of which may prove incorrect. Accordingly, actual results achieved during the forecast period will inevitably vary from those forecast, and variations may be material.

** The master targets are based on management's judgment and on assumptions some or all of which may prove incorrect. Accordingly, actual results achieved in future years will inevitably vary from those forecasts and variations may be material.

*** The consolidated percentages in fiscal 2000, fiscal 2001, fiscal 2002 include DOCKERS® Stores and in fiscal 2006 exclude DOCKERS® Stores.

**** DOCKERS® Stores Division's Master Targets have not been shown as this venture is still a test.

# Other Indicators

## Mark's Division Corporate Stores and Mark's Division and Corporate Services Back-Line Operations

| | | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 Optimistic Forecast* |
|---|---|---|---|---|---|
| Customer service | | | | | |
| Total front-line staff performance rating** | | 91.2% | 92.6% | 91.1% | 94.0% |
| All stores performance rating** | | 84.4% | 88.9% | 85.3% | 91.0% |
| Payroll management (number of staff at fiscal year end) | | | | | |
| Front-line staff – full time | | 417 | 410 | 446 | 570 |
| Front-line staff – part time | | 1,612 | 1,305 | 1,767 | 1,814 |
| Back-line staff – full time | | 154 | 178 | 179 | 203 |
| Back-line staff – part time | | 23 | 24 | 28 | 30 |
| | | 2,206***** | 1,917 | 2,420 | 2,617 |
| Number of full-time equivalents | | 1,176***** | 1,229 | 1,344 | 1,532 |
| Sales dollars per full-time equivalent | | $ 229,000***** | $ 230,000 | $ 238,000 | $ 243,000 |
| Average sales per hour paid | | $ 144.27 | $ 148.81 | $ 152.43 | $ 156.85 |
| Sales per dollar of salary (excluding benefits) | | | | | |
| Selling | | $ 17.73 | $ 17.56 | $ 17.34 | $ 17.38 |
| Total | | $ 9.30 | $ 8.77*** | $ 8.34*** | $ 8.72**** |
| Percentage of front-line staff that is part time | | 79.4% | 76.1% | 79.8% | 76.1% |
| Percentage of total staff that is back-line | | 8.0% | 10.5% | 8.6% | 8.9% |
| Management payroll | | | | | |
| Front-line management salaries | | $ 6,098,944 | $ 6,747,178 | $ 7,669,686 | $ 9,144,965 |
| Back-line management salaries | | $ 4,548,103 | $ 5,314,328*** | $ 5,907,181*** | $ 6,350,878 |
| Total management salaries (including benefits) | | $ 10,647,047 | $ 12,061,506 | $ 13,576,867 | $ 15,495,843 |
| Total management bonus | | $ 606,041 | $ 1,178,818 | $ 2,486,827 | $ 2,050,000 |
| Total management payroll | | $ 11,253,088 | $ 13,240,324 | $ 16,063,694 | $ 17,545,843 |
| Total management payroll as a percentage of corporate sales | | 4.2% | 4.7%*** | 5.0%*** | 4.7% |
| Percentage of total management salaries – front-line | | 57.3% | 55.9% | 56.5% | 59.0% |
| Percentage of total compensation – bonus-based | | 5.4% | 8.9% | 15.5% | 11.7% |
| Percentage of change of total management compensation excluding bonus compensation*** | | 11.8% | 13.3% | 12.6% | 14.1% |
| Percentage of change of total management compensation*** | | (2.6%) | 17.7% | 21.3% | 9.2% |
| Advertising as a percentage of corporate store sales | | 5.3% | 4.7% | 4.8% | 4.8% |
| Front-line occupancy costs as a percentage of corporate store sales | | 9.1% | 9.5% | 9.0% | 8.8% |
| Front-line occupancy costs per average retail sq. ft. | | $ 22.78 | $ 23.22 | $ 23.54 | $ 25.01 |
| Total retail sq. ft. at fiscal year end | | 1,111,985 | 1,195,053 | 1,252,213 | 1,366,824 |
| Corporate stores "On Concept" | Number | 103 | 112 | 116 | 129 |
| | Percentage | 84.4% | 88.2% | 87.9% | 90.2% |
| Average dollar per transaction (corporate stores) | | $ 66.89 | $ 68.31 | $ 69.28 | $ 71.00 |
| Corporate stores' market share of men's clothing stores market | | 12.1% | 12.7% | 13.6% | N/A |

N/A Not available or not applicable.

* The reader is cautioned that all forecast data is based upon management's judgment and on assumptions, outlined on page 18, some or all of which may prove incorrect. Accordingly, actual results achieved during the forecast period will inevitably vary from those forecast and variations may be material.

** The Mark's Division engages an external organization to shop its stores on a regular basis and evaluate and report on the performance of its staff and stores.

*** Starting in fiscal 2000, includes some additional back-line staff in the Corporate Services operation to support the corporate store initiative in Work World and the DOCKERS® Stores start up and increased back-line staff in the Mark's Division to support increasing Business-to-Business, Internet and marketing activities.

**** Excludes outsourced distribution activities in fiscal 2002 forward. See Note 19 to the Consolidated Financial Statements.

***** Includes sales and staff from the two US pilot stores in fiscal 1999.

# Financial Goals

Financial goals are set and monitored to ensure that while the Company is aggressively pursing its Strategic Plan and its Mission, it is still being financed conservatively and is providing a superior return to its investors.

**Goal 1:** To earn a 2% after-tax profit on total corporate and franchise store sales

| (thousands of dollars, except percentage items) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| Corporate and franchise store sales | 417,468 | 437,670 | 487,979 | 536,856 | 554,874 |
| Net earnings | 5,752 | 6,387 | 8,180 | 8,183 | 9,465 |
| After-tax profit return on total systems sales | 1.4% | 1.5% | 1.7% | 1.5% | 1.7% |

**Goal 2:** To provide a return on capital employed in excess of 25% and a return on average equity in excess of 15%

| (thousands of dollars, except per share and percentage items) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| Average capital employed | 73,972 | 88,101 | 97,747 | 104,484 | 105,125 |
| EBIT | 14,361 | 16,327 | 20,504 | 21,209 | 23,784 |
| Return on average capital employed | 19.4% | 18.5% | 21.0% | 20.3% | 22.6% |
| Average equity | 50,026 | 56,439 | 62,146 | 67,100 | 67,741 |
| Return on average shareholders' equity | 11.5% | 11.3% | 13.2% | 12.2% | 14.0% |
| Book value per share | 1.91 | 2.14 | 2.44 | 2.75 | 2.81 |

**Goal 3:** To maintain a total liabilities-to-equity ratio of no greater than 1.75-to-1 at the Company's fiscal year end, and to have a 12-month rolling average total funded debt-to-equity ratio no greater than 1-to-1 (0.90-to-1 in fiscal 1999)

| (thousands of dollars, except ratios) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| Total liabilities | 79,686 | 83,513 | 92,339 | 87,459 | 90,519 |
| Equity | 53,306 | 59,571 | 64,721 | 69,478 | 70,760 |
| Total liabilities-to-equity ratio | 1.49/1 | 1.40/1 | 1.43/1 | 1.26/1 | 1.28/1 |
| Average funded debt-to-equity ratio | 0.92/1 | 0.94/1 | 0.84/1 | 1.11/1 | 1.03/1 |

**Goal 4:** To maintain a current ratio of not less than 1.50-to-1 at the Company's fiscal year end

| (thousands of dollars, except ratios) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| Current assets | 96,360 | 101,475 | 110,387 | 112,974 | 117,316 |
| Current liabilities | 56,525 | 57,296 | 63,222 | 60,506 | 63,566 |
| Working capital | 39,835 | 44,179 | 47,165 | 52,468 | 53,750 |
| Current ratio | 1.70/1 | 1.77/1 | 1.75/1 | 1.87/1 | 1.85/1 |

* The forecast range set by the conservative and optimistic forecasts is based upon management's judgment and on assumptions outlined on page 18, some or all of which may prove incorrect. Accordingly, actual results achieved during the forecast period will inevitably vary from those forecast and variations may be material.

**Goal 5:** To restrict unfinanced capital expenditures to no more than the amount that results in at least a 1.3 times coverage of (EBITDA +(-) other non-cash items added or deducted in determining funds flow from operations + rents + CAM + other operating leases - unfinanced capital expenditures) divided by (interest + rents + CAM + other operating leases + scheduled annual principal repayments of long-term debt)

| (thousands of dollars, except times coverage) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| EBITDA | 22,738 | 26,305 | 31,340 | 33,656 | 36,231 |
| Non-cash items | 1,686 | 511 | (135) | 400 | 400 |
| Rents + CAM + other operating leases | 22,506 | 27,523 | 31,705 | 35,126 | 35,126 |
| | 46,930 | 54,339 | 62,910 | 69,182 | 71,757 |
| Capital expenditures including capital leases | 10,152 | 11,154 | 11,150 | 10,283 | 10,283 |
| Financing of capital expenditures including lease financing | (7,228) | (10,239) | (8,665) | (9,301) | (9,301) |
| Unfinanced capital expenditures | 2,924 | 915 | 2,485 | 982 | 982 |
| Numerator | 44,006 | 53,424 | 60,425 | 68,200 | 70,775 |
| Interest, rents, CAM, other operating leases and scheduled annual principal repayments | 33,863 | 40,868 | 46,588 | 52,565 | 52,669 |
| Times coverage | 1.30 | 1.31 | 1.30 | 1.30 | 1.34 |

**Goal 6:** To maintain rent, other operating leases, computer services, distribution activities and interest on long-term debt (including capital leases) coverage in the range of 1.50-to-1.75 times. In fiscal 2002, the Company outsourced its distribution activities and those costs have been added to this coverage test in fiscal 2002. As a result, the goal in fiscal 2002 and forward has been reduced to a range of 1.25 to 1.50 times. See Note 19 to the Consolidated Financial Statements.

| (thousands of dollars, except times coverage) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| Earnings from operations before income taxes, rent, other operating leases, computer services, distribution activities and interest on long-term debt (including capital leases) | 34,388 | 41,347 | 49,428 | 56,403 | 58,952 |
| Rent, other operating leases, computer services, distribution activities and interest on long-term debt (including capital leases) | 23,392 | 29,037 | 32,902 | 40,637 | 40,715 |
| Times coverage | 1.47 | 1.42 | 1.50 | 1.39 | 1.45 |

**Goal 7:** To achieve back-line costs excluding interest but including goodwill amortization of less than 5% of total system sales (corporate store and franchise store sales combined)

| (thousands of dollars, except percentage items) | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 (Forecast Range)* Conservative | Optimistic |
|---|---|---|---|---|---|
| Total system sales | 417,468 | 437,670 | 487,979 | 536,856 | 554,874 |
| Back-line costs, excluding interest but including goodwill amortization** | 20,845 | 23,540 | 25,795 | 29,469 | 30,878 |
| Back-line costs excluding interest but including goodwill amortization as a percentage of total retail sales | 5.0% | 5.4% | 5.3% | 5.5% | 5.6% |

** Back-line costs include back-line depreciation and amortization. See the Consolidated Statement of Earnings and Retained Earnings.

As of January 27, 2001, the Company is meeting one of its five operational goals and four of its seven financial goals.

* The forecast range set by the conservative and optimistic forecasts is based upon management's judgment and on assumptions outlined on page 18, some or all of which may prove incorrect. Accordingly, actual results achieved during the forecast period will inevitably vary from those forecast and variations may be material.

**Top Performers** *(L to R)* **John Blumenthal, Gail Stone, Pradeep Shakespeare, Ron Iwamoto**

# The Value of Strategic Planning

Our Strategic Plan focuses on the requirement to balance resources among reinvesting and improving upon the Mark's Division proven format, executing the growth strategies in less-developed formats — the "Corporate Store" and merchandise development strategies in the Work World Division — testing and proving new formats such as the DOCKERS® test stores and growing new business vehicles such as Business-to-Business and e-Commerce while continuing to grow the company's bottom line.

A review of the Post Mortem On The Prior Year's Forecast Range, the Management's Discussion and Analysis and the Consolidated Financial Statements, shows that the Company achieved its bottom line growth targets in fiscal 2001 because of its strong consolidated sales and gross margin performance.

**Mark's (L'Équipeur) Division:** The Company continues to invest in and improve its Mark's (L'Équipeur) Division. In fiscal 2002, this will be accomplished by adding 10 new "On Concept" corporate stores, two new corporate clearance centres, relocating six corporate stores, refurbishing two corporate stores and continuing the strong sales growth experienced in the last couple of years in ladies' wear sales and Business-to-Business sales. The division will focus on these value creating growth engines while also continuing to be at or above industry sales growth rates in men's casual wear sales, work wear sales, and casual and work footwear sales.

In addition, in fiscal 2002 and beyond, this division will continue to expand its web capabilities for consumer and Business-to-Business sales as well as for marketing and information exchange activities.

**Work World:** The Work World Division's strategy in fiscal 2002 will be to improve the merchandise programs, replenishment processes and store formats so that the sales dollars per square foot and store and division front-line contribution rates rise to the required levels, while moderately increasing the number of corporate stores. Further into the future, the number of corporate stores will be increased at a more rapid rate.

**DOCKERS® Stores:** The division continues to work tirelessly on its merchandise assortments and replenishment processes in its eight pilot stores in order to reach the sales dollars per square foot, gross margin rate, sales mix between men's and ladies' product and sales blend among tops, bottoms and other products that it needs to achieve for success. If these hurdles are met, the Company will then have a third vehicle for future expansion and value creation. Since the DOCKERS® Stores are still very much a test and since early results have not yet met our expectations, master target excerpts from the Strategic Plan have not been shown.

While focusing on its current value creating strategies, the Company is also always on the look-out for new formats, acquisitions or significant transactions that could add shareholder value to Mark's Work Wearhouse Ltd.

# Master Targets Excerpts from the Strategic Plan

| (dollar amounts in thousands except share price and per retail square foot) | Owner | Actual Fiscal 1999 | Actual Fiscal 2000 | Actual Fiscal 2001 | Master Targets Fiscal 2002* | Master Targets Fiscal 2003* | Master Targets Fiscal 2004* |
|---|---|---|---|---|---|---|---|
| Mark's Division corporate and franchise sales** | Paul Wilson | $ 328,937 | $ 345,803 | $ 385,677 | $ 440,908 | $ 499,248 | $ 525,686 |
| Work World Division corporate and franchise sales | Michael Strachan | $ 86,866 | $ 89,201 | $ 94,532 | $ 103,398 | $ 114,038 | $ 127,677 |
| Mark's Division corporate stores sales per average retail square foot | Paul Wilson | $ 252 | $ 239 | $ 259 | $ 281 | $ 303 | $ 309 |
| Work World Division corporate stores sales per average retail square foot | Michael Strachan | N/A | $ 217 | $ 221 | $ 244 | $ 271 | $ 284 |
| Number of Mark's Division corporate stores | Paul Wilson | 122 | 127 | 132 | 143 | 151 | 157 |
| Number of Mark's Division franchise stores | Paul Wilson | 29 | 29 | 25 | 25 | 23 | 21 |
| Number of Work World Division corporate stores | Michael Strachan | 41 | 45 | 54 | 58 | 71 | 86 |
| Number of Work World Division franchise stores | Michael Strachan | 105 | 102 | 90 | 89 | 83 | 77 |
| Mark's Division corporate stores gross margin rate | Rick Harrison | 40.6% | 41.3% | 41.6% | 41.3% | 41.4% | 41.4% |
| Work World Division corporate stores gross margin rate | Michael Strachan | 35.6% | 36.7% | 37.9% | 39.7% | 40.0% | 40.3% |
| Mark's Division franchise royalties and other | Paul Wilson | $ 3,985 | $ 4,075 | $ 4,129 | $ 4,261 | $ 4,066 | $ 3,788 |
| Work World Division franchise royalties and other | Michael Strachan | $ 3,031 | $ 2,565 | $ 2,429 | $ 2,513 | $ 2,549 | $ 2,547 |
| Mark's Division front-line expenses as a percentage of corporate sales | Paul Wilson | 29.7% | 29.1% | 28.8% | 28.9% | 28.4% | 28.5% |
| Work World Division front-line expenses as a percentage of corporate sales | Michael Strachan | 31.6% | 41.7% | 39.1% | 35.0% | 36.0% | 35.3% |
| Consolidated back-line expenses, including goodwill amortization, as a percentage of total system sales | John Murphy | 5.3% | 5.9% | 5.8% | 6.4% | 6.8% | 6.3% |
| Share price at fiscal year end | Garth Mitchell | $ 3.25 | $ 1.80 | $ 2.40 | $ 2.85 | $ 3.50 | $ 4.25 |
| Consolidated average funded debt-to-equity | Mike Lambert & John Murphy | 0.92/1 | 0.94/1 | 0.84/1 | 1.03/1 | 1.00/1 | 1.00/1 |
| Mark's Division year-end inventory at retail | Rick Harrison | $ 117,419 | $ 123,251 | $ 124,564 | $ 144,420 | $ 152,528 | $ 159,360 |
| Consolidated capital expenditures including capital leases | Michel St. Jean & Robin Lynas | $ 10,152 | $ 11,154 | $ 11,150 | $ 10,283 | $ 14,286 | $ 15,864 |
| Mark's Division corporate stores year-end average store size (retail square feet) | Paul Wilson | 9,115 | 9,410 | 9,486 | 9,558 | 9,617 | 9,655 |
| Work World Division corporate stores year-end average store size (retail square feet) | Michael Strachan | 3,200 | 3,177 | 3,144 | 3,192 | 3,152 | 3,142 |

N/A Not applicable or not available.
* The master targets are based upon management's judgment and on assumptions some or all of which may prove incorrect. Accordingly, actual results achieved in future years will inevitably vary from those forecast and variations may be material.
** Includes Business-to-Business and e-Commerce sales.

# Forecast Range

Earnings per Common Share, for the 52 weeks ending January 26, 2002 are forecast to be in the range of 31 to 36 cents. This forecast range represents, in management's judgment, the most likely set of conditions and the Company's most likely course of action. The reader is cautioned that some assumptions used while preparing our forecast range, although considered reasonable at the time of preparation, may prove to be incorrect. The actual results achieved during the forecast period will inevitably vary from the forecast range and variations may be material.

## KEY ASSUMPTIONS

| (dollars and weighted average shares in thousands, except sales per retail sq. ft.) | Actual 52 weeks ended January 27, 2001 | Forecast Range (unaudited) 52 weeks ended January 26, 2002 | |
|---|---|---|---|
| | | Conservative | Optimistic |
| Growth in GDP | 4.7% | 2.0% | 3.0% |
| Growth in total retail sales excluding auto, food and drug | 5.8% * | 2.6% | 4.5% |
| Total sales increase – Mark's Division corporate stores | 13.3% | 13.3% | 16.6% |
| Total sales increase (decrease) – Mark's Division franchise stores | 3.8% | (0.3%) | 3.2% |
| Total sales increase – Work World Division corporate stores | 23.0% | 13.5% | 21.4% |
| Total sales increase (decrease) – Work World Division franchise stores | (2.4%) | (0.4%) | 1.9% |
| Total sales – DOCKERS® Stores Division corporate stores | $ 7,770 | $ 9,685 | $ 10,569 |
| Number of DOCKERS® Stores Division store openings*** | 3 | — | — |
| Same-store sales increase – Mark's Division corporate stores | 10.3% | 4.6% | 8.0% |
| Same-store sales increase – Mark's Division franchise stores | 12.5% | 5.0% | 8.7% |
| Same-store sales increase – Work World Division corporate stores | 4.7% | 4.7% | 11.1% |
| Same-store sales increase – Work World Division franchise stores | 7.8% | 5.0% | 7.5% |
| Number of new Mark's Division corporate store openings | 2 | 12 | 12 |
| Sales from new Mark's Division corporate store openings during year | $ 1,330 | $ 16,487 | $ 16,487 |
| Number of new Work World Division corporate store openings | 4 | 4 | 4 |
| Sales from new Work World Division corporate store openings during year | $ 1,487 | $ 913 | $ 1,774 |
| Number of Mark's Division corporate store expansions, relocations, | 8 | 8 | 8 |
| refurbishments and sales therefrom | $ 24,980 | $ 22,732 | $ 22,732 |
| Number of Work World Division corporate store expansions, relocations, | 2 | 3 | 3 |
| refurbishments and sales therefrom | $ 2,089 | $ 2,410 | $ 2,410 |
| Number of Mark's Division corporate store closings | 1 | 1 | 1 |
| and sales therefrom | $ 60 | $ 593 | $ 593 |
| Number of Work World Division corporate store closings | 1 | — | — |
| and sales therefrom | $ 227 | — | — |
| Sales per average retail sq. ft. Mark's Division corporate stores** | $ 259 | $ 273 | $ 281 |
| Sales per average retail sq. ft. Work World Division corporate stores** | $ 221 | $ 228 | $ 244 |
| Sales per average retail sq. ft. DOCKERS® Stores Division corporate stores** | $ 333 | $ 354 | $ 387 |
| Number of Mark's Division franchise stores at year end | 25 | 25 | 25 |
| Number of Work World Division franchise stores at year end | 90 | 89 | 89 |
| Mark's Division gross margin rate | 41.6% | 41.4% | 41.3% |
| Work World Division gross margin rate | 37.9% | 39.3% | 39.7% |
| Consolidated gross margin rate | 41.1% | 41.1% | 41.1% |
| Consolidated capital expenditures including capital purchases made by capital leases | $ 11,150 | $ 10,283 | $ 10,283 |
| Operating line – interest rates | 7.2% | 7.2% | 7.2% |
| Long-term debt financing including capital lease financing and vendor debt on purchase of franchise stores | $ 14,425 | $ 9,901 | $ 9,901 |
| Consolidated front-line expenses as a percentage of corporate store sales | 30.6% | 30.7% | 30.1% |
| Consolidated back-line expenses including goodwill amortization as a percentage of total system sales | 5.8% | 6.3% | 6.4% |
| Weighted average shares outstanding | 27,597 | 26,012 | 26,012 |

* Source: Statistics Canada
** Calculated on stores open and at the same size for an entire season. The Company divides the year into two seasons. Spring – February through July; Fall – August through January.
*** The Company's first five DOCKERS® Stores were opened in fiscal 2000 and three more DOCKERS® Stores were opened in fiscal 2001.

The Company completed this forecast range on March 22, 2001. The quarterly financial reports issued by the Company to its shareholders during the forecast year will contain either a statement that there are no significant changes to be made to the forecast range or an updated earnings per Common Share forecast or forecast range accompanied by explanations of significant changes. The reader is further cautioned that the fourth quarter of the year continues to produce between 37% and 39% of the Company's total system annual sales and most of its annual profits.

## CONSOLIDATED STATEMENTS OF EARNINGS

| (in thousands, except per Common Share) | Actual 52 weeks ended January 27, 2001 | Forecast Range (unaudited) 52 weeks ended January 26, 2002 | |
|---|---|---|---|
| | | Conservative | Optimistic |
| Corporate and franchise sales | $ 487,979 | $ 536,856 | $ 554,874 |
| Franchise sales | 124,109 | 123,668 | 127,349 |
| Corporate sales | 363,870 | 413,188 | 427,525 |
| Cost of sales | 214,361 | 243,257 | 251,916 |
| Gross margin | 149,509 | 169,931 | 175,609 |
| Front-line expenses | 111,248 | 126,881 | 128,795 |
| Front-line contribution | 38,261 | 43,050 | 46,814 |
| Franchise royalties and other | 6,558 | 6,579 | 6,774 |
| Net front-line contribution | 44,819 | 49,629 | 53,588 |
| Back-line expenses including goodwill amortization | 28,293 | 33,863 | 35,351 |
| Earnings before income taxes | 16,526 | 15,766 | 18,237 |
| Income taxes | 8,346 | 7,583 | 8,772 |
| Net earnings | $ 8,180 | $ 8,183 | $ 9,465 |
| Earnings per Common Share – basic | 30¢ | 31¢ | 36¢ |
| Weighted average number of Common Shares outstanding | 27,597 | 26,012 | 26,012 |

## CONSOLIDATED BALANCE SHEETS

| (in thousands) | Actual as at January 27, 2001 | Forecast Range (unaudited) as at January 26, 2002 | |
|---|---|---|---|
| | | Conservative | Optimistic |
| **Assets** | | | |
| Cash and cash equivalents | $ 6,993 | $ 1,482 | $ 7,093 |
| Merchandise inventories | 84,483 | 94,248 | 92,543 |
| Other current assets | 18,911 | 17,244 | 17,680 |
| | 110,387 | 112,974 | 117,316 |
| Other assets | 1,056 | 909 | 909 |
| Capital assets | 28,148 | 26,590 | 26,590 |
| Future income taxes | 2,997 | 2,597 | 2,597 |
| Goodwill | 14,472 | 13,867 | 13,867 |
| | $ 157,060 | $ 156,937 | $ 161,279 |
| **Liabilities** | | | |
| Accounts payable, accrued liabilities and income taxes payable | $ 52,317 | $ 48,510 | $ 51,570 |
| Current portion of long-term debt | 10,905 | 11,996 | 11,996 |
| | 63,222 | 60,506 | 63,566 |
| Long-term debt | 27,016 | 24,852 | 24,852 |
| Deferred gains | 2,101 | 2,101 | 2,101 |
| | 92,339 | 87,459 | 90,519 |
| **Shareholders' equity** | | | |
| Capital stock | 31,228 | 29,790 | 29,790 |
| Retained earnings | 33,493 | 39,688 | 40,970 |
| | 64,721 | 69,478 | 70,760 |
| | $ 157,060 | $ 156,937 | $ 161,279 |

# Forecast Range and Post Mortem on the Prior Year's Forecast Range

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | Actual 52 weeks ended January 27, 2001 | Forecast Range (unaudited) 52 weeks ended January 26, 2002 Conservative | Optimistic |
|---|---|---|---|
| Cash and cash equivalents generated (deployed) | | | |
| Operations | $ 18,881 | $ 21,029 | $ 22,312 |
| Working capital | 2,259 | (11,907) | (7,579) |
| Investing* | (5,807) | (835) | (835) |
| Financing* | (10,114) | (13,798) | (13,798) |
| Net cash and cash equivalents generated (deployed) | $ 5,219 | $ (5,511) | $ 100 |

* Excludes capital lease investing and financing of $8,665,000 and $3,060,000 of non-cash investing and financing on the acquisition of individual franchise stores during the fiscal year ended January 27, 2001; excludes capital lease investing and financing of $9,301,000 in the conservative and optimistic forecasts for the fiscal year ended January 26, 2002.

# Post Mortem on the Prior Year's Forecast Range

## CONSOLIDATED STATEMENTS OF EARNINGS

| (in thousands, except per Common Share) | Actual 52 weeks ended January 27, 2001 | Forecast Range (unaudited) 52 weeks ended January 27, 2001 Conservative | Optimistic |
|---|---|---|---|
| Corporate and franchise store sales | $ 487,979 | $ 478,937 | $ 492,838 |
| Deduct: Franchise store sales – Mark's | 65,754 | 67,016 | 70,373 |
| Franchise store sales – Work World | 58,355 | 60,260 | 61,349 |
| Corporate store sales | 363,870 | 351,661 | 361,116 |
| Gross margin | 149,509 | 144,418 | 148,804 |
| Add: Franchise royalties and other | 6,558 | 6,873 | 7,136 |
| Deduct: Expenses including goodwill amortization | 139,541 | 138,166 | 139,391 |
| Earnings before income taxes | 16,526 | 13,125 | 16,549 |
| Income taxes | 8,346 | 6,312 | 7,818 |
| Net earnings | $ 8,180 | $ 6,813 | $ 8,731 |
| Earnings per Common Share | 30¢ | 25¢ | 31¢ |
| Weighted average number of Common Shares outstanding | 27,597 | 27,807 | 27,807 |

### CONSOLIDATED STATEMENTS OF EARNINGS

In its January 29, 2000 annual report, the Company forecast earnings per Common Share in the range of 25 cents to 31 cents for its fiscal year ended January 27, 2001.

In its three quarterly reports issued during fiscal 2001, the Company reported that it was a little ahead or at the upper end of its forecast range and in all cases, advised shareholders that it was staying with its forecast range.

In the final analysis, during the fiscal year ended January 27, 2001, the Company delivered $488.0 million in total system sales — 99.0% of its optimistic forecast. Due to the unplanned purchase of four Mark's Division franchise stores and the purchase of six Work World Division franchise stores, compared to a plan for the purchase of one store during fiscal 2001, corporate store sales came in $2.8 million above the optimistic forecast and franchise store sales came in $3.2 million below the conservative forecast. The higher than optimistic forecast corporate store sales also caused the Company to deliver $0.7 million more in gross margin dollars than the optimistic forecast at a gross margin rate two basis points above the conservative forecast level and 12 basis points below the optimistic forecast level. Franchise royalties and other came in as a percentage of total franchise sales 14 basis points below the rate projected at the optimistic forecast level. The dollar shortfall of $0.6 million in franchise royalties and other from the optimistic forecast level was due to the unplanned conversion of franchise stores to corporate stores as noted above and also due to the fact that franchise store sales, excluding store conversions to

corporate, came in closer to the conservative forecast level than optimistic forecast level. The Company's total expenses came in $0.2 million higher than the optimistic forecast dollars but at 25 basis points lower (better) as a percentage of corporate store sales.

The net result of all of the above was that the Company delivered $16.5 million in pre-tax income within $23,000 of its optimistic forecast. Income taxes came in at a higher rate than planned, as the Company had not anticipated the immediate adverse impact the substantially enacted decline in future income tax rates would have on its future income tax provision. Lower than planned weighted shares outstanding also helped the earnings per share calculation by 22 basis points.

## CONSOLIDATED BALANCE SHEETS

The Company's current assets at January 27, 2001 of $110.4 million essentially came in as expected, ending the 2001 fiscal year within the forecast range. Year-end capital assets came in $4.8 million above the forecast, as the Company spent $1.4 million more than forecast on store capital expenditures, $0.7 million more on system capital expenditures (over half of this overage was on Web system capital expenditures), added $0.6 million of capital assets from unplanned purchases of franchise stores and depreciation was $2.1 million below forecast, due to the timing of capital expenditures and capital lease financing during fiscal 2001.

Goodwill came in $3.7 million higher than planned as a result of the $3.9 million of acquisition goodwill less amortization thereon on the unplanned purchases of franchise stores as summarized in Notes 3 and 8 to the Consolidated Financial Statements.

Total liabilities came in $9.9 million higher than the conservative forecast, primarily as a result of the $5.8 million of long-term debt related to the unplanned purchase of the franchise stores and the funding of $2.7 million more in capital lease financing than forecast.

Year-end shareholders' equity came in $3.4 million below the optimistic forecast as $2.9 million more was spent on shares purchased for cancellation under the Company's Normal Course Issuer Bid than had been planned and net earnings came in $0.5 million below forecast, due to a higher than planned tax provision as noted above.

## CONSOLIDATED BALANCE SHEETS

| (in thousands) | Actual as at January 27, 2001 | Forecast Range (unaudited) as at January 27, 2001 | |
|---|---|---|---|
| | | Conservative | Optimistic |
| **Assets** | | | |
| Current assets | $ 110,387 | $ 109,908 | $ 111,176 |
| Other assets | 1,056 | 1,420 | 1,420 |
| Capital assets | 28,148 | 23,308 | 23,308 |
| Future income taxes | 2,997 | 3,301 | 3,301 |
| Goodwill | 14,472 | 10,729 | 10,729 |
| | $ 157,060 | $ 148,666 | $ 149,934 |
| **Liabilities** | | | |
| Current liabilities | $ 63,222 | $ 61,327 | $ 60,677 |
| Long-term debt | 27,016 | 18,935 | 18,935 |
| Deferred gains | 2,101 | 2,161 | 2,161 |
| | 92,339 | 82,423 | 81,773 |
| **Shareholders' equity** | | | |
| Capital stock | 31,228 | 32,677 | 32,677 |
| Retained earnings | 33,493 | 33,566 | 35,484 |
| | 64,721 | 66,243 | 68,161 |
| | $ 157,060 | $ 148,666 | $ 149,934 |

### CONSOLIDATED STATEMENTS OF CASH FLOWS

The actual net cash generated of $5.2 million in fiscal 2001 came in $5.1 million better than the optimistic forecast of $0.1 million of cash generation. This occurred primarily because of improved inventory and accounts receivable management and higher than planned income taxes payable due to the timing of earnings which caused non-cash working-capital to generate $2.3 million of funds rather than deploying $6.9 million of funds as was forecast resulting in a $9.2 million favorable swing in cash generation.

The $9.2 million favorable swing in non-cash working capital from the optimistic forecast plus the $0.4 million over optimistic forecast in financing activities was partially offset by $2.9 million of investing activities over plan (primarily $3.1 million for the cash component of the unplanned purchases of franchise stores) and $1.6 million of cash flow from operations shortfall from the optimistic forecast ($0.5 million in net earnings shortfall and $1.1 million less in fiscal 2001 depreciation and amortization and other).

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | 52 weeks ended January 27, 2001 | Forecast (unaudited) 52 weeks ended January 27, 2001 | | Variance of Actual to Forecast | |
|---|---|---|---|---|---|
| | Actual | Conservative | Optimistic | Conservative | Optimistic |
| Cash and cash equivalents generated (deployed) | | | | | |
| Operations | $ 18,881 | $ 18,518 | $ 20,435 | $ 363 | $ (1,554) |
| Non-cash working capital | 2,259 | (9,468) | (6,909) | 11,727 | 9,168 |
| Investing, excluding capital leases | (5,807) | (2,876) | (2,876) | (2,931) | (2,931) |
| Financing, excluding capital lease and franchise vendor long-term debt funding | (10,114) | (10,547) | (10,547) | 433 | 433 |
| Net cash and cash equivalents generated (deployed) | $ 5,219 | $ (4,373) | $ 103 | $ 9,592 | $ 5,116 |

## SUPPLEMENTARY SCHEDULES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | 52 weeks ended January 27, 2001 | Forecast (unaudited) 52 weeks ended January 27, 2001 | | Variance of Actual to Forecast | |
|---|---|---|---|---|---|
| | Actual | Conservative | Optimistic | Conservative | Optimistic |
| Capital assets acquired by means of capital leases | $ (8,665) | $ (5,978) | $ (5,978) | $ (2,687) | $ (2,687) |
| Capital lease funding to acquire capital assets | $ 8,665 | $ 5,978 | $ 5,978 | $ 2,687 | $ 2,687 |
| Purchases of individual franchise stores by means of long-term debt | $ (3,060) | $ — | $ — | $ (3,060) | $ (3,060) |
| Long-term debt from vendors on purchase of individual franchise stores | $ 3,060 | $ — | $ — | $ 3,060 | $ 3,060 |

# Management's Discussion and Analysis

## CONSOLIDATED STATEMENTS OF EARNINGS

### SALES

In fiscal 2001, the Company posted strong total system sales growth of 11.5% over the prior year as shown in Table 1.

This strong sales growth story in fiscal 2001 over fiscal 2000 was also true on a same store total system sales basis as shown in Table 2.

A comparison of Tables 1 and 2 shows that 78.4% of the Company's dollar sales growth in fiscal 2001 over fiscal 2000 resulted from initiatives implemented within existing stores and 21.6% of the Company's dollar sales growth resulted from square footage additions.

**Performance Against the Industry**

The Company's percentage sales increase in fiscal 2001 over fiscal 2000 compares to the retail sales increase in Canada in calendar 2000 over calendar 1999 as shown in Graph 2 and the first row of Table 18.

Tables 1, 2 and 18 and Graph 2 show that in 2000 (fiscal January 2001) the Company's consolidated total system sales growth of 11.5% over 1999 (fiscal January 2000) outperformed the retail sector sales growth in total, and continues to strongly outperform the sales growth in the market segments the Company competes in within the retail sector, namely men's clothing stores (0.1% increase),

## CONSOLIDATED TOTAL SYSTEM SALES Table 1

| Number of stores as at January 27, 2001 | | 52 weeks ended January 30, 1999 ($000s) | 52 weeks ended January 29, 2000 ($000s) | 52 weeks ended January 27, 2001 ($000s) | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 ($000s) | (%) |
|---|---|---|---|---|---|---|
| | **Mark's Division** | | | | | |
| 132 | Corporate stores | 267,136 ** | 282,463 ** | 319,923 | 37,460 | 13.3 |
| 25 | Franchise stores | 61,801 | 63,340 | 65,754 | 2,414 | 3.8 |
| 157 | Total | 328,937 | 345,803 | 385,677 | 39,874 | 11.5 |
| | **Work World Division** | | | | | |
| 54 | Corporate stores | 14,600 * | 29,418 * | 36,177 | 6,759 | 23.0 |
| 90 | Franchise stores | 72,266 * | 59,783 * | 58,355 | (1,428) | (2.4) |
| 144 | Total | 86,866 | 89,201 | 94,532 | 5,331 | 6.0 |
| | **DOCKERS® Stores Division** | | | | | |
| 8 | Corporate stores | — | 2,666 | 7,770 | 5,104 | 100.0+ |
| | **Mark's U.S. Division** | | | | | |
| Nil | Corporate stores | 1,665 ** | — | — | — | — |
| 309 | **Consolidated Total System Sales** | 417,468 | 437,670 | 487,979 | 50,309 | 11.5 |

* Thirty-one Work World Division franchise stores (19 through the purchase of Paul John Enterprises Ltd.) were acquired during the fiscal year ended January 30, 1999 and those stores became full year corporate stores for the fiscal year ended January 29, 2000.
** Excludes inter-group sales.

## CONSOLIDATED SAME STORE TOTAL SYSTEM SALES Table 2

| Number of same stores through fiscal 2001 and 2000 | | 52 weeks ended January 29, 2000 ($000s) | 52 weeks ended January 27, 2001 ($000s) | Fiscal 2001 Increase Over Fiscal 2000 ($000s) | (%) |
|---|---|---|---|---|---|
| | **Mark's Division** | | | | |
| 148 | Corporate and Franchise stores | 331,592 | 366,156 | 34,564 | 10.4 |
| | **Work World Division** | | | | |
| 134 | Corporate and Franchise stores | 83,217 | 88,115 | 4,898 | 5.9 |
| 282 | **Consolidated Same Store Total System Sales** | 414,809 | 454,271 | 39,462 | 9.5 |

total men's wear (3.8% increase), shoe stores (0.4% decline), women's clothing stores (2.7% increase) and total ladies' wear (1.2% increase).

Table 3 shows how the Company's sales percentage increase in fiscal 2001 over fiscal 2000 was strong all year with good healthy total system sales percentage increases in each and every quarter.

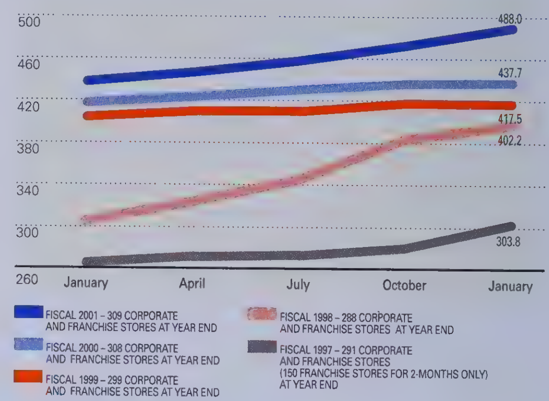
The Company's total system sales percentage increase in fiscal 2001 over fiscal 2000 was also strong in most regions of the country as shown in Table 4.

Further, even though on a macro trend apparel as a segment within the retail sector has been losing some of its share of the consumer's wallet to other retail segments such as electronics, furniture, appliances and automobiles over the last five years (see Table 18 under "Risk Factors"), the Company's sales growth has outperformed the total industry and all sectors in the industry. See Graph 3.

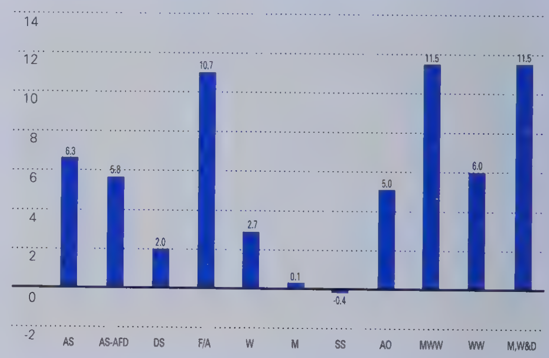
**Market Share Growth** Not surprisingly, an outgrowth of the data above is that the Company continues to increase its share of the men's clothing store market, and in fiscal 2000 (calendar 1999) and fiscal 2001 (calendar 2000) increased its share of the total men's wear market, which includes men's wear sales in department stores and discount stores. See Graph 4.

In addition, now the Company is starting to appear on the radar screen in the ladies' wear market with a 1.3% market share of the women's clothing stores market and a 0.6% market share of the total ladies' wear market (includes ladies' wear sales in department stores and discount stores) in fiscal 2001. While these market share percentages in themselves are not significant today, they are very significant going forward as they mean that the Company is now starting to find sales in the $9.6 billion total ladies' wear market while continuing to maintain or grow its market share in the $6.1 billion men's wear market and continuing to be a dominant player in the $1.0 billion men's footwear market. In other words, as Graph 5 shows, the Company is now playing on a $16.7 billion playing field rather than on a $7.1 billion dollar playing field in terms of future growth potential.

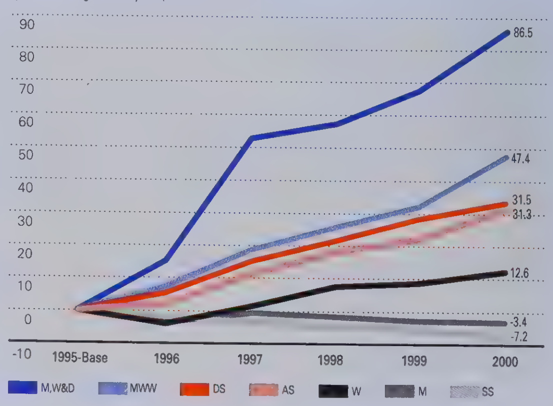
**5-YEAR CONSOLIDATED CORPORATE AND FRANCHISE SALES TO JANUARY 27, 2001 (GRAPH 1)**
(rolling 12-month dollars millions)




**2000 RETAIL SALES GROWTH OVER 1999 (GRAPH 2)**
(percent change)




**RETAIL TRADE GROWTH IN CANADA (GRAPH 3)**
(percent change over 5 years)

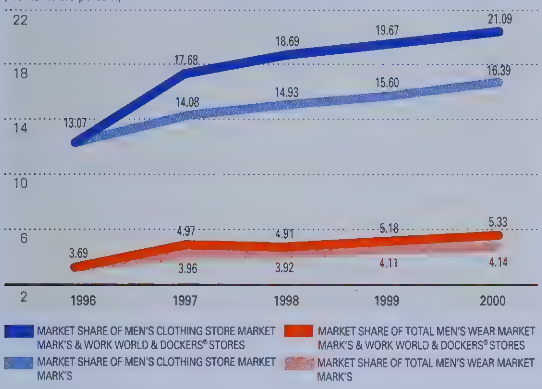



**Graph and Table Legend**
Source =
- The industry data in Tables 3 and 4 comes from Statistics Canada
- The industry data in Graphs 2, 3, part of 4 and part of 6 comes from Statistics Canada.
- The industry data in Graph 5, part of 4 and part of 6 comes from Trendex North America.
- All of the industry data in Graphs 7 and 8 comes from Trendex North America.
- The industry data in Table 18 comes partly from Statistics Canada and partly from Trendex North America.
- The share and index data for Graph 18 and the market value by quarter and volumes of shares traded under Summary and Quarterly Financial Information comes from the Toronto Stock Exchange.
- All Mark's, Work World and DOCKERS® Stores data comes from the Company's accounting records.

| | |
|---|---|
| AS = | All Stores |
| SS = | Shoe Stores |
| AS-AFD = | All Stores less auto, food and drug |
| AO = | All Others |
| DS = | Department Stores (includes discount department stores) |
| MWW = | Mark's Division corporate and franchise stores |
| F/A = | Furniture and Appliances |
| WW = | Work World Division corporate and franchise stores |
| W = | Women's Clothing Stores |
| M,W&D = | Mark's, Work World and DOCKERS® Stores Divisions total system sales |
| M = | Men's Clothing Stores |

## 5-YEAR MEN'S APPAREL RETAIL MARKET SHARE
(GRAPH 4)

Percentage of Retail Dollar Sales Men's Apparel by Mark's (corporate and franchise stores) plus Work World (corporate and franchise stores) since 1997 plus DOCKERS® Corporate Stores since 1999 (market share percent)




## CANADIAN APPAREL & FOOTWEAR MARKET SIZE
(GRAPH 5)

(retail dollar sales – billions)


That the Company continues to be a dominant player in the footwear business when it does not operate in the dress up or athletic footwear businesses is also quite an accomplishment. The Company's market share of the Canadian men's footwear market and the shoe store market is shown in Graph 6.

**Sales Analysis** The sales growth engineered by the Company in fiscal 2001 over fiscal 2000 did not simply occur by accident or because the economy was strong. The Company employs very specific strategies to grow its sales. In its Mark's Division, those strategies are "On Concept" real estate activity, category exploitation of the hot categories through merchandise assortment development, targeted marketing events, the rapid development of ladies' wear sales and Business-to-Business sales and the development of electronic or Internet sales to customers. In the Work World Division, those strategies are the "Corporate Store Strategy," gradual geographic expansion into central and eastern Canada with corporate stores, targeted marketing events and merchandise assortment development to enhance both corporate and franchise store sales. In the DOCKERS® Stores Division, the operative word is "test" as the Company continues to

## CONSOLIDATED TOTAL SYSTEM SALES GROWTH BY QUARTER COMPARED TO INDUSTRY SEGMENTS Table 3

| | Fiscal 2001 Sales Percentage Increase/(Decrease) over Fiscal 2000 | | | | |
|---|---|---|---|---|---|
| | M, W & D | M | SS | W | AS |
| First Quarter | 10.6 | 3.9 | 2.6 | 4.2 | 7.9 |
| Second Quarter | 14.8 | 3.8 | (4.2) | 1.0 | 6.4 |
| Third Quarter | 9.6 | 3.2 | 2.4 | 4.8 | 6.7 |
| Fourth Quarter | 11.4 | (6.1) | (1.0) | 1.4 | 4.7 |
| Total Year | 11.5 | 0.1 | (0.4) | 2.7 | 6.3 |

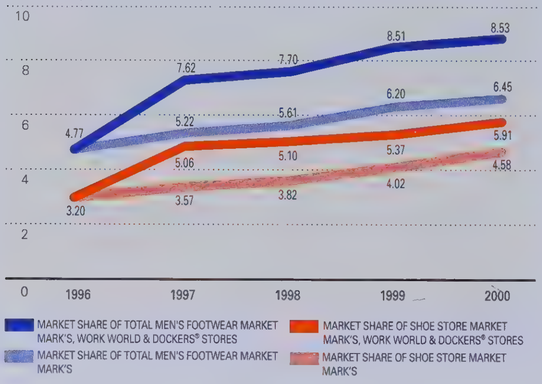
## CONSOLIDATED TOTAL SYSTEM SALES GROWTH BY REGION COMPARED TO RETAIL SALES GROWTH BY REGION Table 4

| | Fiscal 2001 Sales Percentage Increase over Fiscal 2000 | |
|---|---|---|
| | M, W & D | AS |
| British Columbia | 2.1 | 6.2 |
| Prairies | 14.9 | 7.3 |
| Ontario | 13.8 | 7.2 |
| Quebec | 13.5 | 4.6 |
| Atlantic Canada | 8.2 | 5.0 |
| Total Canada | 11.5 | 6.3 |

# Management's Discussion and Analysis

5-YEAR FOOTWEAR RETAIL MARKET SHARE
(GRAPH 6)

Percentage of Retail Dollar Sales of the Men's Footwear Market and Percentage of Retail Dollar Sales of the Shoe Store Market by Mark's (corporate and franchise stores) plus Work World (corporate and franchise stores) since 1997 plus DOCKERS® Corporate Stores since 1999
(market share percent)




test to find the right merchandise assortment and price points for the division's target customer in the existing eight pilot stores.

In fiscal 2001, the Company's Mark's Division converted four franchise stores to corporate stores, opened two new corporate stores and relocated, expanded or refurbished eight corporate stores. In addition, the six new stores opened in fiscal 2000 went from part-year stores to full-year stores. All this "On Concept" store activity accounted for $17.0 million or 45.3% of the $37.5 million corporate store sales increase delivered in fiscal 2001 over fiscal 2000 as summarized in Table 1. In fiscal 2000, Mark's Division "On Concept" store activity accounted for all of the $15.3 million corporate store sales increase over fiscal 1999. This "On Concept" store strategy has been and continues to be successful for the Mark's Division as the division continues, in a very disciplined fashion, to carry out in-depth "Pre-audit" and "Post-audit" processes on each store project to ensure that the rate of return on real estate related capital expenditures is meeting pre-set internal Company hurdle rates.

In fiscal 2001, the Company's Work World Division converted six franchise stores to corporate stores, opened four new corporate stores and relocated, expanded or refurbished two corporate stores. In addition, the five new stores opened in fiscal 2000 went from part-year stores to full-year stores. All this "Corporate Store" activity accounted for $5.6 million or 82.4% of the $6.8 corporate store sales increase delivered in fiscal 2001 over fiscal 2000 as summarized in Table 1. In fiscal 2000, "Corporate Store" activity accounted for all of the $14.8 million corporate stores sales increase over fiscal 1999.

In fiscal 2001, the Company's DOCKERS® Stores Division opened up three more test stores to bring its total number of test stores to eight. Now that this division has the test store base it needs, it will concentrate all its energy and activities on improving its merchandise assortments in order to increase its sales per square foot in fiscal 2002.

Table 5 summarizes the Company's total sales by major product category. In fiscal 2001, the Company grew its ladies' wear category of corporate store sales (primarily casual pants and casual tops excluding casual outerwear, accessories and footwear grouped in other categories) by $15.4 million (64.1%) on top of corporate store sales growth of $8.0 million (49.9%) in fiscal 2000 over fiscal 1999. In fact, just five years ago in fiscal 1996, the ladies' wear category (primarily casual pants and casual tops excluding casual outerwear, accessories and footwear grouped in other categories) at the Company was only a $5.1 million dollar annual business or a 2.6% blend of total corporate store sales. Clearly the Company's category exploitation initiatives in this category are working.

In fiscal 2001, the Company added new ladies' accessory products, as well as novelty and gift-giving commodities to its accessories category. These additions, combined with an assist from some normal winter weather in the months of November and December 2000 compared to the lack of winter in those months over the last few years, caused the Company to register a strong $7.7 million (18.7%) sales increase in accessories in fiscal 2001 over fiscal 2000.

In fiscal 2001, the Company posted a healthy $5.8 million (16.9%) sales growth in work apparel and industrial outerwear primarily due to the introduction of new work apparel products, the upgrading of the styling on established products and the exploiting of the Company's position as the primary seller of Carhartt product in Canada.

In fiscal 2001, the Company also delivered a strong $10.0 million (16.6%) sales growth in footwear. This growth came mostly in industrial footwear where the Company introduced some new products that were very successful.

In fiscal 2001, in the Company's men's casual wear category, the Company continued to generate strong sales growth (22.6%) in men's casual bottoms (primarily in private label khakis and shorts) and satisfactory sales growth (8.0%) in men's casual tops, but experienced a sales decline (-8.0%) in men's casual outerwear. As well, as noted in the last two years' annual reports, while the Company intends to maintain its position as a dominant cold weather clothing and footwear store in Canada, it has reduced its fourth-quarter sales dependency on winter goods.

More specifically, in the Company's Mark's Division, fourth quarter sales of winter goods have been reduced from 35% of the Mark's Division's fourth quarter corporate store sales in fiscal 1997 to 25% of the Mark's Division's fourth quarter corporate store sales in fiscal 2001. This reduction in dependency on cold weather products has been achieved by growing other businesses that are less weather dependent, thereby reducing the Company's weather dependency risk in the fourth quarter.

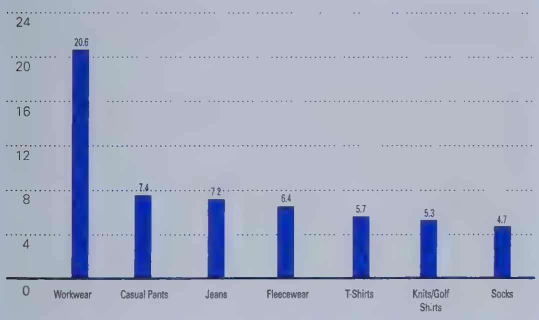
The Company's strong sales growth in Business-to-Business sales is included in the sales by category numbers summarized in Table 5. Business-to-Business sales are apparel and footwear sales to corporate and public sector customers ranging from embroidered golf shirts for a corporation's or public sector customer's annual golf day to full uniforms (industrial or casual) for a customer's entire work force.

In fiscal 2001, the Company's Mark's Division grew the revenue derived from Business-to-Business sales by 27.7% on top of a fiscal 2000 sales increase of 19.0% over fiscal 1999.This activity now contributes 9.2% of the Mark's Division corporate stores sales (fiscal 2000 8.1%; fiscal 1999 7.2%).

Graph 7 shows Mark's Division's fiscal 2001 market share in selected apparel commodities to further highlight the division's positioning in the apparel industry in Canada. Graph 8 depicts the Mark's Division fiscal 2001 market share in selected footwear commodities to highlight the division's positioning in the footwear industry in Canada.

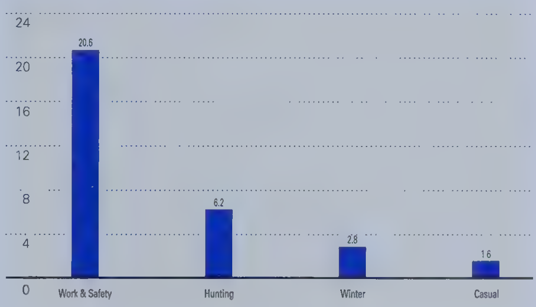
## MARK'S DIVISION MARKET SHARE IN FISCAL 2001 (CALENDAR 2000) OF SELECTED APPAREL COMMODITIES
(GRAPH 7)

(market share percent)




## MARK'S DIVISION MARKET SHARE IN FISCAL 2001 (CALENDAR 2000) OF SELECTED FOOTWEAR CATEGORIES
(GRAPH 8)

(market share percent)




## CONSOLIDATED CORPORATE STORE SALES BY CATEGORY Table 5

| | 52 weeks ended January 30, 1999 | | 52 weeks ended January 29, 2000 | | 52 weeks ended January 27, 2001 | | Fiscal 2001 Increase/ (Decrease) Over Fiscal 2000 |
|---|---|---|---|---|---|---|---|
| | ($000s) | Blend (%) | ($000s) | Blend (%) | ($000s) | Blend (%) | (%) |
| Work apparel including industrial outerwear | 30,352 | 10.7 | 34,107 | 10.8 | 39,875 | 11.0 | 16.9 |
| Men's casual wear including casual outerwear* | 101,985 | 36.0 | 114,055 | 36.3 | 123,378 | 33.9 | 8.2 |
| Men's jeans wear | 38,944 | 13.7 | 40,170 | 12.8 | 41,445 | 11.4 | 3.2 |
| Casual and industrial footwear* | 55,664 | 19.6 | 60,461 | 19.2 | 70,505 | 19.4 | 16.6 |
| Accessories* | 38,567 | 13.6 | 41,450 | 13.2 | 49,190 | 13.5 | 18.7 |
| Ladies' wear* | 16,044 | 5.7 | 24,051 | 7.6 | 39,456 | 10.8 | 64.1 |
| Other | 1,845 | 0.7 | 253 | 0.1 | 21 | 0.0 | (91.7) |
| | 283,401 | 100.0 | 314,547 | 100.0 | 363,870 | 100.0 | 15.7 |

* Depending on the year, approximately 3.5% to 4.5% of the sales in men's casual wear and 5.5% to 7.0% of the sales in accessories are in ladies' items. In addition, approximately 9% to 11% of footwear sales are in ladies' items.

## GROSS MARGIN ANALYSIS

In fiscal 2001, as shown in Table 6, the Company continued its trend of improving its consolidated gross margin rate. The consolidated gross margin rate improved a full 50 basis points to 41.1% from 40.6% a year ago as the 150 basis point improvement in purchase markup was only partially offset by the basis point increases in the cost of freight, markdowns and customer adjustments and shrink.

Within the Company's divisions, the Mark's Division gross margin rate improved by 30 basis points, the Work World Division gross margin rate improved by 120 basis points and the DOCKERS® Stores Division gross margin rate, while still below expectations, significantly improved from the prior year, which had been adversely impacted by start-up issues.

The improvement of the gross margin rate in the Mark's Division can be largely attributed to an improved purchase markup achieved through the continuation of the conversion of the purchase of import merchandise from "indirect import purchases" (purchases through importers) to "direct import purchases" (direct purchases from offshore factories). This activity results in lower landed costs for merchandise. In addition, the Mark's Division has had to move some of its historical domestic product sourcing in the footwear sector offshore as a result of Canadian plant closures and this has also contributed to improved purchase markup.

The improvement in the Work World Division is primarily attributed to improved markdown management, as this division's corporate store operation is now doing a much better job of product quantification and selection than it was during its corporate store start-up phase.

Consolidated markdowns and customer adjustments increased to 7.9% of sales in fiscal 2001, an increase of 70 basis points over the prior year. Most of the increase is attributed to higher than planned markdown activity in the Mark's Division. Although small in dollars from a consolidated perspective in fiscal 2001, markdown activity was also higher than planned in the DOCKERS® Stores Division.

Table 6 also shows that the Company, through its computer processing and store security systems, continues to maintain consolidated shrink levels below one percent of corporate store sales which is better than industry averages.

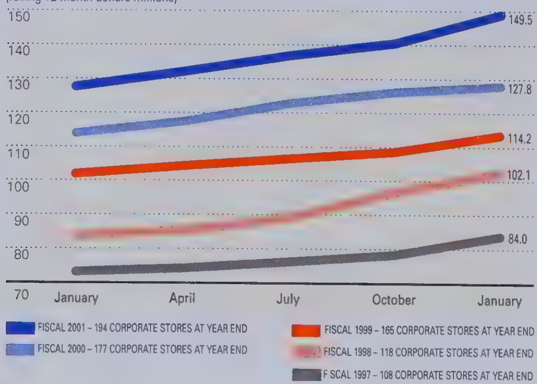
Of the $21.7 million (17.0%) increase in gross margin dollars in fiscal 2001 over fiscal 2000, $20.0 million or 92.2% is attributable to sales increases and $1.7 million or 7.8% is attributable to the gross margin rate improvement.

The performance of the Mark's Division ladies' wear, accessories and industrial footwear accounted for $13.2 million (80.0%) of the $16.5 million increase in the Mark's Division's gross margin dollars delivered in fiscal 2001 over those delivered in fiscal 2000.

The addition of four new corporate stores, the conversion of six franchise stores to corporate stores and five part-year new stores in fiscal 2000 becoming full-year stores in fiscal 2001 accounted for $2.0 million (69.0%) of the $2.9 million increase in the Work World Division gross margin dollars delivered in fiscal 2001 over fiscal 2000. The strong gross margin dollars growth categories for this division were industrial footwear, men's casual outerwear (even though this category decreased on a consolidated Company basis), men's casual wear and accessories.

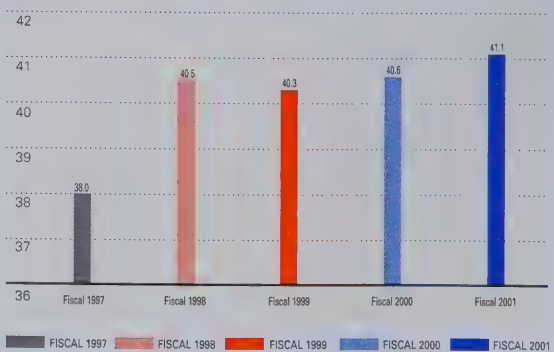
### 5-YEAR CONSOLIDATED CORPORATE STORE GROSS MARGIN DOLLARS TO JANUARY 27, 2001 (GRAPH 9)

(rolling 12 month dollars millions)




### 5-YEAR CONSOLIDATED GROSS MARGIN RATE OF CORPORATE STORES SALES TO JANUARY 27, 2001 (GRAPH 10)

(percent of sales)



The more than doubling of the gross margin rate in fiscal 2001 over fiscal 2000 in the DOCKERS® Stores Division was attributable to leaving some of the start-up issues behind and the fact that the division grew from five part-year stores in fiscal 2000 to five full-year stores and three part-year stores in fiscal 2001.

The purchase markup of 50.3% in consolidated corporate store end-of-year inventories is up from 49.5% at January 29, 2000 and 48.8% at January 30, 1999.

### FRONT-LINE EXPENSES

During fiscal 2001, consolidated front-line expenses as summarized in Table 7 increased by $15.0 million (15.6%) over fiscal 2000. This increase is less than the $21.7 million (17.0%) increase in consolidated gross margin dollars that was described above under Gross Margin Analysis.

As a percentage of corporate store sales, the front-line expense rate remained unchanged at 30.6% of corporate store sales in fiscal 2001 compared to fiscal 2000. Although front-line expenses per corporate store average retail square foot increased to $79.04 in fiscal 2001 from $74.19 in fiscal 2000, this 6.5% increase is less than the 7.6% increase in consolidated sales per square foot (see Table 11) and the corporate store same store sales increase of 9.8%.

Fiscal 2001 was a year of investment in front-line expenses. The Mark's Division invested in sales and support staff to support its rapidly growing Business-to-Business sales and in advertising for the addition of three more advertising events and the introduction of "Air Miles" to its Ontario and Quebec regions. Occupancy costs in the Mark's Division also grew in dollars, but remained relatively flat on a cost per retail square foot basis as corporate store retail square footage increased by 57,160 retail square feet in fiscal 2001 over fiscal 2000. See Table 11.

The Mark's Division accounted for $10.1 million ($8.8 million in staff, advertising and occupancy) or 67.3% of the increase in front-line expenses and generated the sales and gross margin dollar increases to justify the investment.

The DOCKERS® Stores Division accounted for $3.0 million of the increase in front-line expenses in fiscal 2001 over fiscal 2000 ($2.2 million in occupancy and depreciation and amortization) as it grew from five part-year stores in fiscal 2000 to five full-year stores and three part-year stores in fiscal 2001.

### GROSS MARGIN RATE Table 6

| | 52 weeks ended January 30, 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 | Fiscal 2001 Improvement/ (Deterioration) Over Fiscal 2000 |
|---|---|---|---|---|
| Purchase markup | 49.9% | 51.2% | 52.7% | 1.5% |
| Freight | (2.0%) | (2.3%) | (2.4%) | (0.1%) |
| | 47.9% | 48.9% | 50.3% | 1.4% |
| Markdowns and customer adjustments | (6.3%) | (7.2%) | (7.9%) | (0.7%) |
| Shrink | (0.9%) | (0.6%) | (0.8%) | (0.2%) |
| Other | (0.4%) | (0.5%) | (0.5%) | 0.0% |
| | 40.3% | 40.6% | 41.1% | 0.5% |

### CONSOLIDATED FRONT-LINE EXPENSES Table 7

| | 52 weeks Ended January 30,1999 | 52 weeks ended January 29, 2000 | | | 52 weeks ended January 27, 2001 | | | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 | |
|---|---|---|---|---|---|---|---|---|---|
| | ($000s) | ($000s) | (%) of Corporate Store Sales | Per Corporate Store Avg. Retail sq.ft. ($) | ($000s) | (%) of Corporate Store Sales | Per Corporate Store Avg. Retail sq.ft. ($) | ($000s) | (%) |
| Staff | 25,430 | 29,602 | 9.4 | 22.83 | 35,398 | 9.8 | 25.15 | 5,796 | 19.6 |
| Advertising | 14,502 | 14,619 | 4.6 | 11.27 | 16,612 | 4.6 | 11.80 | 1,993 | 13.6 |
| Occupancy | 25,868 | 31,094 | 9.9 | 23.98 | 35,738 | 9.8 | 25.39 | 4,644 | 14.9 |
| Other | 11,937 | 13,051 | 4.2 | 10.06 | 15,356 | 4.2 | 10.91 | 2,305 | 17.7 |
| Depreciation and amortization | 5,350 | 6,231 | 2.0 | 4.81 | 6,664 | 1.8 | 4.74 | 433 | 6.9 |
| Interest short-term | 2,015 | 1,610 | 0.5 | 1.24 | 1,480 | 0.4 | 1.05 | (130) | (8.1) |
| | 85,102 | 96,207 | 30.6 | 74.19 | 111,248 | 30.6 | 79.04 | 15,041 | 15.6 |

# Management's Discussion and Analysis

The Work World Division accounted for $1.9 million of the increase in front-line expenses in fiscal 2001 over fiscal 2000 ($1.6 million in occupancy and staff) as it grew from 45 corporate stores at the end of fiscal 2000 to 54 corporate stores by the end of fiscal 2001.

### FRANCHISE OPERATIONS

Table 8 summarizes the Company's assessment of the contribution it receives from its franchise activities.

During fiscal 2001, the Mark's franchise operations posted a sales increase of $2.4 million or 3.8% over fiscal 2000. Same store sales increased by $6.6 million or 12.5%. The same store sales increase number is larger because during fiscal 2001 four Mark's Division franchise stores were converted to corporate stores. Table 8 shows a franchise contribution after cost allocations of $1.1 million by the Mark's franchisees, a $473,000 or 75% improvement over fiscal 2000. This large improvement was attributable mainly to the recovery of bad debt provisions in fiscal 2001. The Mark's Division franchise operations sales continued to decrease as a percentage of total system sales in the Mark's Division. They represented 17.0% of the division's corporate and franchise store sales combined in fiscal 2001 (fiscal 2000 18.3%; fiscal 1999 18.8%). The Mark's Division franchise operation is very stable and is expected to shrink a little over time with the occasional franchisee selling his or her store back to the Company. The number of Mark's Division franchise stores repurchased was larger than normal in fiscal 2001, as three franchisees decided to retire.

During fiscal 2001, the Work World Division franchise operations posted a sales decrease of $1.4 million or 2.4%. Same store sales increased by $4.0 million or 7.8%. On a same store basis, there was an increase rather than a decrease primarily because during the course of fiscal 2001 six Work World Division franchise stores were converted to corporate stores and six Work World franchise stores were closed. Table 8 shows a franchise contribution after cost allocations but before acquisition financing costs and goodwill amortization of $358,000 in fiscal 2001, down $74,000 or 17.1% from the $432,000 contribution in fiscal 2000. This decrease was attributable to larger reductions in revenues than in allocated expenses.

### FRANCHISE CONTRIBUTION Table 8

| (thousands, except for number of stores) | 52 weeks ended January 30, 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 | |
|---|---|---|---|---|---|
| **Mark's franchise operations** | | | | | |
| Number of stores at end of year | 29 | 29 | 25 | (4) | (13.8%) |
| Franchise sales | $ 61,801 | $ 63,340 | $ 65,754 | $ 2,414 | 3.8% |
| Franchise royalties and other income | $ 3,985 | $ 4,075 | $ 4,129 | $ 54 | 1.3% |
| Expenses allocated to franchise operations* | $ 3,176 | $ 3,444 | $ 3,025 | $ (419) | (12.2%) |
| Contribution by Mark's franchise operations | $ 809 | $ 631 | $ 1,104 | $ 473 | 75.0% |
| **Work World franchise operations** | | | | | |
| Number of stores at end of year | 105 | 102 | 90 | (12) | (11.8%) |
| Franchise sales | $ 72,266*** | $ 59,783*** | $ 58,355 | $ (1,428) | (2.4%) |
| Franchise royalties and other income | $ 3,031*** | $ 2,565*** | $ 2,429 | $ (136) | (5.3%) |
| Expenses allocated to franchise operations** | $ 3,244*** | $ 2,133*** | $ 2,071 | $ (62) | (2.9%) |
| Contribution by Work World franchise operations before other expenses | $ (213) | $ 432 | $ 358 | $ (74) | (17.1%) |
| Other expenses: | | | | | |
| Acquisition financing costs | $ 365 | $ 260 | $ 171 | $ (89) | (34.2%) |
| Goodwill amortization | $ 211 | $ 211 | $ 211 | — | — |
| | $ 576 | $ 471 | $ 382 | $ (89) | (18.9%) |
| Contribution by Work World franchise operations | $ (789) | $ (39) | $ (24) | $ 15 | 38.5% |
| **Total franchise operations** | $ 20 | $ 592 | $ 1,080 | $ 488 | 82.4% |

* Mark's Division and Corporate services back-line costs are allocated to Mark's Division franchise operations based on Mark's Division franchise sales as a percentage of Mark's Division total system sales applied to Mark's Division and Corporate Services back-line costs net of cost recoveries and excluding those costs deemed not applicable to the Mark's Division franchise operations. All franchise bad debt provisions (recoveries) applicable to the Mark's Division franchises are also included. The cost of two district managers is assumed for front-line costs related to the operation of the Mark's Division franchise stores. Prior years' Mark's Division and Corporate Services back-line costs charged to franchises were restated to conform to fiscal 2001 calculations.

** Work World Division back-line costs excluding those costs deemed not applicable to Work World franchise operations are allocated to Work World Division franchise operations based on Work World franchise sales as a percentage of total system sales for the Work World Division. All franchise bad debt provisions (recoveries) applicable to the Work World Division franchises are also included. Prior years' Work World back-line costs charged to franchises were restated to conform to fiscal 2001 calculations.

*** Thirty-one Work World franchise stores were converted to corporate stores in the latter part of fiscal 1999.

## BACK-LINE EXPENSES

Table 9 shows that in fiscal 2001 back-line expenses in total increased by $2.2 million or 8.5% from fiscal 2000 amounts.

The Mark's Division and Corporate Services operations account for most of the increase as their combined back-line staff increased by $2.0 million of which $1.1 million related to formula bonus amounts, $0.4 million to increases in benefit costs and the remainder for normal annual staff adjustments and additional technical staff to support the Company's Web activities, additional marketing staff to support increased marketing activities and additional accounting, systems and human resources staff to provide the required level of back-line services to the Work World and DOCKERS® Stores Divisions as they increase in size.

Depreciation and amortization expenses on computer capital leases increased by $0.3 million over a year ago ($0.2 million in the Work World Division, $0.1 million in the Mark's Division and Corporate Services operations) as a result of the $1.9 million of additions at cost of computer equipment and operating software under capital leases in fiscal 2001 over fiscal 2000.

Interest long-term increased by $0.2 million over the prior year as a result of the $2.5 million net increase in interest-bearing long-term debt in fiscal 2001 over fiscal 2000. See Note 10 to the Consolidated Financial Statements and Table 16 "Long-Term Debt".

In fiscal 2001, due to the good franchise receivable collection results produced by the Company's franchise department and the decrease in the number of franchise stores, franchise bad debt provisions were reduced by $0.6 million (Mark's Division $0.4 million, Work World Division $0.2 million).

In fiscal 2001, consolidated back-line expenses excluding interest long-term and depreciation and amortization were $21.6 million, $1.8 million (9.1%) over last year's $19.8 million and have remained as a similar percentage of total system sales over the last three years: January 27, 2001 at 4.4% (January 29, 2000 4.5%; January 30, 1999 4.3%).

## CONSOLIDATED BACK-LINE EXPENSES Table 9

| | 52 weeks ended January 30, 1999 | 52 weeks ended January 29, 2000 | | 52 weeks ended January 27, 2001 | | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 | |
|---|---|---|---|---|---|---|---|
| | ($000s) | ($000s) | (%) of Corporate & Franchise Sales | ($000s) | (%) of Corporate & Franchise Sales | ($000s) | (%) |
| Staff | 10,394 | 12,458 | 2.8 | 14,763 | 3.0 | 2,305 | 18.5 |
| Occupancy | 998 | 1,015 | 0.2 | 1,038 | 0.2 | 23 | 2.3 |
| Other | 4,730 | 4,132 | 0.9 | 3,981 | 0.8 | (151) | (3.7) |
| Computer services | | | | | | | |
| Services | 571 | 687 | 0.2 | 854 | 0.2 | 167 | 24.3 |
| Depreciation and amortization | 2,050 | 2,751 | 0.6 | 3,061 | 0.6 | 310 | 11.3 |
| Interest – long-term | 659 | 668 | 0.2 | 609 | 0.1 | (59) | (8.8) |
| Software development and maintenance costs | 906 | 1,201 | 0.3 | 1,238 | 0.3 | 37 | 3.1 |
| Depreciation and amortization | 661 | 621 | 0.1 | 563 | 0.1 | (58) | (9.3) |
| Interest – long-term | 691 | 1,739 | 0.4 | 1,889 | 0.4 | 150 | 8.6 |
| Franchise bad debt provisions | 219 | 300 | 0.1 | (251) | (0.0) | (551) | (100.0+) |
| Total back-line expenses | 21,879 | 25,572 | 5.8 | 27,745 | 5.7 | 2,173 | 8.5 |

# Management's Discussion and Analysis

## CONSOLIDATED EBITDA

Table 10 shows the pre-tax earnings before interest, depreciation and amortization (EBITDA) increased from $26.3 million a year ago to $31.3 million in fiscal 2001, an increase of 19.1%.

The Mark's Division posted a year-over-year growth in EBITDA of $4.1 million or 11.5% based on strong increases in sales and gross margin dollars in fiscal 2001 over fiscal 2000. The Work World Division posted a year-over-year improvement in EBITDA of $1.0 million as the front-line contribution from the division's corporate stores improved by $1.0 million. Corporate Services EBITDA also improved by $0.4 million.

The DOCKERS® Stores Division posted a decrease in year-over-year EBITDA of $0.6 million or 26.0% as it operated five full-year test stores and three part-year test stores in fiscal 2001 compared to five part-year test stores in fiscal 2000. As noted in the "Sales Analysis" section above, no additional stores are planned to be added in fiscal 2002 as this division will use fiscal 2002 to work on improving merchandise assortments, delivering sharper price points to its customers on the commodities that require it and improving supplier replenishment.

## CONSOLIDATED PRE-TAX EARNINGS BEFORE GOODWILL AMORTIZATION

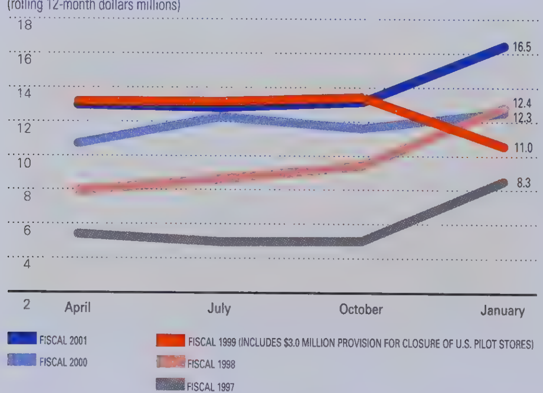
The combination of the $21.7 million increase in gross margin dollars, $15.0 million increase in front-line expenses, $0.1 million decrease in franchise royalties and other and $2.2 million increase in back-line expenses produced pre-tax earnings before goodwill amortization in fiscal 2001 of $17.1 million, which is $4.4 million or 34.6% higher than the prior year. The Company's pre-tax earnings before goodwill amortization margin on corporate store sales improved from 4.0% in fiscal 1999 and 2000 to 4.7% in fiscal 2001.

Table 11, a three-year operations table, and Table 12, a three-year front-line operations table by division, allow readers to review the Company's performance by season and by division.

Graph 12 allows readers to view how the Company's sales are distributed by region of Canada.

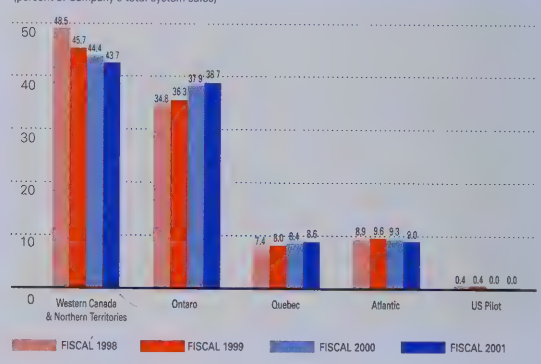
### 5-YEAR PRE-TAX INCOME AFTER GOODWILL AMORTIZATION (GRAPH 11)

(rolling 12-month dollars millions)




### 4-YEAR TOTAL SYSTEM SALES PER REGION (GRAPH 12)

(percent of Company's total system sales)




### CONSOLIDATED EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) Table 10

| | 52 weeks ended January 30, 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 | |
|---|---|---|---|---|---|
| | ($000s) | ($000s) | ($000s) | ($000s) | (%) |
| Mark's Division | 34,026 | 35,796 | 39,912 | 4,116 | 11.5 |
| Work World Division | 510 | 43 | 1,088 | 1,045 | 100.0+ |
| DOCKERS® Stores Division | — | (2,116) | (2,666) | (550) | (26.0) |
| Corporate Services | (7,922) | (7,418) | (6,994) | 424 | 5.7 |
| Mark's U.S. Division | (3,876)* | — | — | — | — |
| | 22,738 | 26,305 | 31,340 | 5,035 | 19.1 |
| EBITDA as percentage of consolidated total systems sales | 5.4% | 6.0% | 6.4% | | |
| EBITDA as percentage of consolidated corporate store sales | 8.0% | 8.4% | 8.6% | | |

* Mark's U.S. Division includes $2,961,000 of closure costs in fiscal 1999

## THREE-YEAR OPERATIONS Table 11

| (dollar amounts in thousands, except sales per retail square foot and gross margin return on space) | 52 Weeks Ended January 30, 1999 | | | 52 Weeks Ended January 29, 2000 | | | 52 Weeks Ended January 27, 2001 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Spring | Fall | Total | Spring | Fall | Total | Spring | Fall | Total |
| Consolidated Statement of Earnings | | | | | | | | | |
| Corporate and franchise sales | $ 152,711 | $ 264,757 | $ 417,468 | $ 167,338 | $ 270,332 | $ 437,670 | $ 188,826 | $ 299,153 | $ 487,979 |
| Corporate sales | $ 100,105 | $ 183,296 | $ 283,401 | $ 119,971 | $ 194,576 | $ 314,547 | $ 139,219 | $ 224,651 | $ 363,870 |
| Gross margin (%) | 40.4 | 40.3 | 40.3 | 40.8 | 40.5 | 40.6 | 41.2 | 41.0 | 41.1 |
| Front-line expenses | $ 35,975 | $ 49,127 | $ 85,102 | $ 43,269 | $ 52,938 | $ 96,207 | $ 49,664 | $ 61,584 | $ 111,248 |
| Front-line contribution | $ 4,463 | $ 24,673 | $ 29,136 | $ 5,738 | $ 25,879 | $ 31,617 | $ 7,744 | $ 30,517 | $ 38,261 |
| Front-line contribution (%) | 4.5 | 13.5 | 10.3 | 4.8 | 13.3 | 10.1 | 5.6 | 13.6 | 10.5 |
| Franchise royalties and other | $ 2,717 | $ 4,299 | $ 7,016 | $ 2,535 | $ 4,105 | $ 6,640 | $ 2,626 | $ 3,932 | $ 6,558 |
| Back-line expenses including goodwill amortization | $ 10,863 | $ 11,332 | $ 22,195 | $ 10,853 | $ 15,094 | $ 25,947 | $ 12,441 | $ 15,852 | $ 28,293 |
| Provision for closure of Mark's U.S. pilot stores | — | $ 2,961 | $ 2,961 | — | — | — | — | — | — |
| Pre-tax earnings (loss) | $ (3,683) | $ 14,679 | $ 10,996 | $ (2,580) | $ 14,890 | $ 12,310 | $ (2,071) | $ 18,597 | $ 16,526 |
| Mark's corporate stores | | | | | | | | | |
| Open at start of period | 114 | 115 | 114 | 122 | 125 | 122 | 127 | 128 | 127 |
| Opened | 1 | 6 | 7 | 3 | 3 | 6 | — | 2 | 2 |
| Franchise purchases | 1 | 1 | 2 | — | — | — | 2 | 2 | 4 |
| Closed | (1) | — | (1) | — | (1) | (1) | (1) | — | (1) |
| Open at end of period | 115 | 122 | 122 | 125 | 127 | 127 | 128 | 132 | 132 |
| Mark's U.S. corporate stores | | | | | | | | | |
| Open at end of period | 1 | 2 | 2 | 1 | — | — | — | — | — |
| Work World corporate stores | | | | | | | | | |
| Open at end of period | 10 | 41 | 41 | 41 | 45 | 45 | 52 | 54 | 54 |
| DOCKERS® corporate stores | | | | | | | | | |
| Open at end of period | — | — | — | — | 5 | 5 | 7 | 8 | 8 |
| Franchise stores | | | | | | | | | |
| Open at end of period | | | | | | | | | |
| Mark's | 30 | 29 | 29 | 29 | 29 | 29 | 27 | 25 | 25 |
| Work World | 129 | 105 | 105 | 105 | 102 | 102 | 95 | 90 | 90 |
| Corporate stores sales per sales area (sq. ft.)* | | | | | | | | | |
| Consolidated***** | $ 95 | $ 156 | $ 251 | $ 94 | $ 143 | $ 237 | $ 101 | $ 154 | $ 255 |
| Mark's Division | $ 95 | $ 157 | $ 252 | $ 95 | $ 144 | $ 239 | $ 102 | $ 157 | $ 259 |
| Work World*** | — | — | — | $ 86 | $ 131 | $ 217 | $ 87 | $ 134 | $ 221 |
| DOCKERS® Stores Division**** | — | — | — | — | — | — | $ 157 | $ 176 | $ 333 |
| Corporate operations inventory turns (times) | | | | | | | | | |
| Consolidated***** | 0.7 | 1.1 | 1.8 | 0.8 | 1.0 | 1.8 | 0.8 | 1.2 | 2.0 |
| Mark's Division | 0.8 | 1.1 | 1.9 | 0.8 | 1.2 | 2.0 | 0.9 | 1.2 | 2.1 |
| Work World Division | 0.4 | 0.7 | 1.1 | 0.4 | 0.6 | 1.0 | 0.5 | 0.7 | 1.2 |
| DOCKERS® Stores Division | — | — | — | — | 0.7 | 0.7 | 0.9 | 0.9 | 1.8 |
| Mark's U.S. Division | 0.4 | 0.6 | 1.0 | — | — | — | — | — | — |
| Operating line** | | | | | | | | | |
| highest usage | $ 30,491 | $ 44,277 | $ 44,277 | $ 25,260 | $ 32,921 | $ 32,921 | $ 25,011 | $ 35,768 | $ 35,768 |
| lowest usage | $ 842 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Mark's corporate stores total sales area (sq. ft.) | | | | | | | | | |
| Stores open at beginning of year | | | 1,019,244 | | | 1,111,985 | | | 1,195,053 |
| Opened/expanded/purchased from franchisees | | | 98,806 | | | 85,984 | | | 64,460 |
| Closed/downsized | | | (6,065) | | | (2,916) | | | (7,300) |
| Stores open at end of year | | | 1,111,985 | | | 1,195,053 | | | 1,252,213 |
| Mark's U.S. corporate stores total sales area (sq. ft) at end of year | | | 13,282 | | | — | | | — |
| Work World corporate stores total sales area (sq. ft.) | | | | | | | | | |
| Stores open at beginning of year | | | 5,929 | | | 131,210 | | | 142,979 |
| Opened/expanded/purchased from franchisees | | | 125,281 | | | 20,705 | | | 29,646 |
| Closed/downsized | | | — | | | (8,936) | | | (2,850) |
| Stores open at end of year | | | 131,210 | | | 142,979 | | | 169,775 |
| DOCKERS® corporate stores total sales area (sq. ft.) end of year | | | — | | | 16,529 | | | 27,337 |
| Gross margin return on investment (times) | | | | | | | | | |
| Mark's Division | | | 1.5 | | | 1.6 | | | 1.8 |
| Work World Division | | | 1.1 | | | 0.9 | | | 0.9 |
| DOCKERS® Stores Division**** | | | — | | | 0.3 | | | 1.5 |
| Gross margin return on space ($ per sq.ft.) | | | | | | | | | |
| Mark's Division | | | $ 101.8 | | | $ 101.1 | | | $ 108.8 |
| Work World Division | | | $ 75.8 | | | $ 78.7 | | | $ 87.6 |
| DOCKERS® Stores Division**** | | | — | | | — | | | $ 122.7 |

* Calculated on stores open and at the same store size for an entire season. The Company breaks the year down into two seasons: Spring – February through July; Fall – August through January.

** Excludes outstanding letters of credit, which had a highest outstanding amount in fiscal 2001 of $11,049,000 in July 2000 (in fiscal 2000 $8,978,000 in January 2000; in fiscal 1999 $8,787,000 in June 1998).

*** All Work World corporate stores are part-year stores in fiscal 1999 and thus no sales per square foot have been calculated.

**** All DOCKERS® Stores were part-year stores in fiscal 2000 and thus no sales per square foot have been calculated. As well, no gross margin return on space for DOCKERS® Stores Division was calculated in fiscal 2000, as the division only opened its initial stores in the fall of fiscal 2000.

***** Includes U.S. pilot stores in fiscal 1999.

# Management's Discussion and Analysis

## THREE-YEAR FRONT-LINE OPERATIONS BY DIVISION Table 12

| (dollar amounts in thousands, except sales per resident and sales per retail sq. ft.) | Mark's | Mark's U.S. Pilot | Work World* | DOCKERS® Stores | Total |
|---|---|---|---|---|---|
| **Sales – total system**** | | | | | |
| Fiscal 2001 | $ 385,677 | N/A | $ 94,532 | $ 7,770 | $ 487,979 |
| Fiscal 2000 | $ 345,803 | N/A | $ 89,201 | $ 2,666 | $ 437,670 |
| Fiscal 1999 | $ 328,937 | $ 1,665 | $ 86,866 | N/A | $ 417,468 |
| **Total systems sales per resident******* | | | | | |
| Fiscal 2001 | $ 12.54 | N/A | $ 3.08 | $ 0.25 | $ 15.87 |
| Fiscal 2000 | $ 11.34 | N/A | $ 2.92 | 0.09 | $ 14.35 |
| Fiscal 1999 | $ 10.88 | N/A | $ 2.87 | N/A | $ 13.75 |
| **Sales – corporate stores**** | | | | | |
| Fiscal 2001 | $ 319,923 | N/A | $ 36,177 | $ 7,770 | $ 363,870 |
| Fiscal 2000 | $ 282,463 | N/A | $ 29,418 | $ 2,666 | $ 314,547 |
| Fiscal 1999 | $ 267,136 | $ 1,665 | $ 14,600 | N/A | $ 283,401 |
| **Corporate store sales per retail sq. ft.***** | | | | | |
| Fiscal 2001 | $ 259 | N/A | $ 221 | $ 333 | $ 255 |
| Fiscal 2000 | $ 239 | N/A | $ 217 | N/A | $ 237 |
| Fiscal 1999 | $ 252 | $ 108 | N/A | N/A | $ 251 |
| **Sales – franchise stores** | | | | | |
| Fiscal 2001 | $ 65,754 | N/A | $ 58,355 | N/A | $ 124,109 |
| Fiscal 2000 | $ 63,340 | N/A | $ 59,783 | N/A | $ 123,123 |
| Fiscal 1999 | $ 61,801 | N/A | $ 72,266 | N/A | $ 134,067 |
| **Front-line contribution** | | | | | |
| Fiscal 2001 | 12.8% | N/A | (1.3%) | (28.2%) | 10.5% |
| Fiscal 2000 | 12.2% | N/A | (5.1%) | (52.7%) | 10.1% |
| Fiscal 1999 | 10.9% | (40.0%) | 4.0% | N/A | 10.3% |
| **Franchise royalties and other** | | | | | |
| Fiscal 2001 | $ 4,129 | N/A | $ 2,429 | N/A | $ 6,558 |
| Fiscal 2000 | $ 4,075 | N/A | $ 2,565 | N/A | $ 6,640 |
| Fiscal 1999 | $ 3,985 | N/A | $ 3,031 | N/A | $ 7,016 |
| **Net front-line contribution from operations** | | | | | |
| Fiscal 2001 | $ 45,035 | N/A | $ 1,976 | $ (2,192) | $ 44,819 |
| Fiscal 2000 | $ 38,585 | N/A | $ 1,076 | $ (1,404) | $ 38,257 |
| Fiscal 1999 | $ 33,208 | $ (668) | $ 3,612 | N/A | $ 36,152 |
| **Inventory turnover (times)****** | | | | | |
| Fiscal 2001 | 2.1 | N/A | 1.2 | 1.8 | 2.0 |
| Fiscal 2000 | 2.0 | N/A | 1.0 | 0.7 | 1.8 |
| Fiscal 1999 | 1.9 | 1.0 | 1.1 | N/A | 1.8 |
| **Number of stores at end of year Corporate/Franchise** | | | | | |
| Fiscal 2001 | 132/25 | 0/0 | 54/90 | 8/0 | 194/115 |
| Fiscal 2000 | 127/29 | 0/0 | 45/102 | 5/0 | 177/131 |
| Fiscal 1999 | 122/29 | 2/0 | 41/105 | N/A | 165/134 |

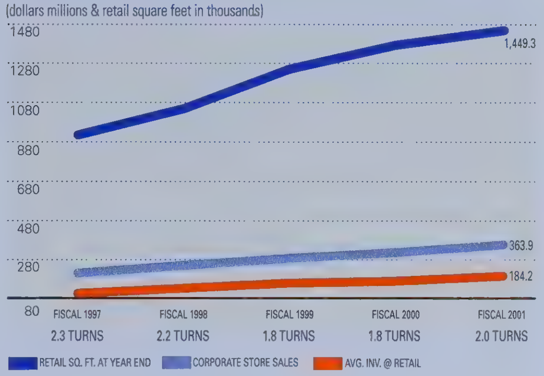
N/A Not applicable.
* In fiscal 1999, the 31 franchise stores acquired including the 19 from Paul John Enterprises Ltd. appear as franchise stores until their respective purchase dates and as corporate stores thereafter.
** Excludes inter-group sales.
*** Calculated on stores open and at the same store size for an entire season. The Company breaks the year down into two seasons: Spring – February through July; Fall – August through January.
**** Calculation based on the compilation of regional data plus inventory in the Company's corporate distribution centre. Distribution centre inventories held by Mark's and Work World Divisions contain some amounts intended for their respective franchise stores.
***** Population data obtained from Statistics Canada.

## CONSOLIDATED BALANCE SHEETS

The Company's consolidated balance sheets show that the Company's total assets as at January 27, 2001 are up $14.0 million or 9.8% over January 29, 2000. The main increases in asset accounts as at January 27, 2001 over January 29, 2000 are in cash, merchandise inventories, prepaid expenses and supplies (in other current assets) capital assets and goodwill. The increase in cash from a year ago, which is primarily due to reduced investment in non-cash working capital and improved funds provided by operations, is discussed in more detail later on under the heading "Consolidated Statements of Cash Flows".

Most of the $3.0 million or 3.7% increase in merchandise inventories as reflected in Table 13 is the result of $2.6 million of additional inventory for the nine incremental corporate stores in the Work World Division and $1.1 million of additional inventory for the three incremental corporate stores and some increased assortments in the DOCKERS® Stores Division both offset slightly by the $0.7 million decrease in inventory in the Mark's Division.

## CONSOLIDATED 5-YEAR INVENTORY TURNS
(GRAPH 13)




## CONSOLIDATED MERCHANDISE INVENTORIES Table 13

| | As at January 30, 1999 | As at January 29, 2000 | As at January 27, 2001 | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 | |
|---|---|---|---|---|---|
| | ($000s) | ($000s) | ($000s) | ($000s) | (%) |
| Mark's Division | 62,773 | 66,499 | 65,773 | (726) | (1.1%) |
| Work World Division | 13,455 | 13,847 | 16,510 | 2,663 | 19.2% |
| DOCKERS® Stores Division | — | 1,122 | 2,200 | 1,078 | 96.1% |
| Mark's U.S. Division | 754 | — | — | — | — |
| | 76,982 | 81,468 | 84,483 | 3,015 | 3.7% |

Table 14 highlights that, on a consolidated basis in fiscal 2001, year-end inventory per retail square foot and average inventory per average retail square foot were reduced or improved by 3.1% and 1.6% respectively, and consolidated inventory turnover was also improved by 8.2% while average retail square feet and year-end retail square feet grew by 8.6% and 7.0% respectively from fiscal 2000 levels.

As the Company has stated in previous annual reports, while it will continue to monitor inventory turnover and exert effort to improve in this area, it will do so carefully because today's consumers, subject to increasing time pressures, expect that stores, particularly destination stores (Mark's Division concept) will always be "in stock" for them whenever they find the time to shop.

Other current assets detailed in Note 5 to the Consolidated Financial Statements show that the $1.7 million increase in other current assets in fiscal 2001 over fiscal 2000 is a result of the increase in prepaid expenses and supplies. The increased prepaid expenses and supplies consist of increased prepaid advertising and pre-made fixtures for some of the Company's spring 2001 advertising and store construction activities.

Table 15 illustrates that the $2.3 million or 8.7% increase in the Company's capital assets at January 27, 2001 compared to January 29, 2000 is the result of the Company's continuing "On Concept" store program in its Mark's Division, the continuation of the "Corporate Store Strategy" in the Work World Division, the opening of

## MERCHANDISE INVENTORIES PER RETAIL SQUARE FOOT Table 14

| | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 | Fiscal 2001 Increase/(Decrease) Over Fiscal 2000 % |
|---|---|---|---|---|
| Consolidated* | | | | |
| Inventory at cost per retail sq. ft. at year end (includes warehouse inventory)** | $ 61.27 | $ 60.14 | $ 58.29 | (3.1) |
| Average inventory at cost per avg. retail sq. ft. throughout the year (includes warehouse inventory)** | $ 72.90 | $ 68.43 | $ 67.35 | (1.6) |
| Inventory turnover (times) | 1.82 | 1.83 | 1.98 | 8.2 |
| Weighted average retail sq. ft. throughout the year | 1,116,934 | 1,296,643 | 1,407,461 | 8.6 |
| Year-end retail sq. ft. | 1,256,477 | 1,354,561 | 1,449,325 | 7.0 |

* Includes Mark's U.S. pilot stores in fiscal 1999.
** Warehouse inventories held by the Mark's and Work World Divisions contain some amounts intended for their respective franchise stores.

## CAPITAL ASSETS Table 15

| | Fiscal 1999 ($000s) | Fiscal 2000 ($000s) | Fiscal 2001 ($000s) |
|---|---|---|---|
| Opening capital assets | 20,072 | 23,531 | 25,893 |
| Mark's Division store "On Concept" and other additions | | | |
| Cash | 2,371 | 127 | 1,383 |
| Capital leases | 3,790 | 4,464 | 4,759 |
| Work World Division "Corporate Store Strategy" and other additions | | | |
| Cash | 812 | 277 | 383 |
| Capital leases | 429 | 645 | 862 |
| DOCKERS® Stores Division "Corporate Stores" | | | |
| Cash | — | 1,511 | 719 |
| Capital Leases | — | 707 | 465 |
| Computer system capital lease additions | 2,750 | 3,423 | 2,579 |
| Paul John acquisition – 19 Work World stores | 781 | — | — |
| Franchise purchases – Mark's and Work World Divisions | 510 | 3 | 565 |
| | 31,515 | 34,688 | 37,608 |
| Provision for closure of Mark's U.S. pilot stores | (797) | — | — |
| Disposition of capital assets | 160 | 73 | (36) |
| | 30,878 | 34,761 | 37,572 |
| Depreciation net of sale leaseback transactions | (7,347) | (8,868) | (9,424) |
| Closing capital assets | 23,531 | 25,893 | 28,148 |

three more stores for the DOCKERS® Stores Division test and the required continuing investment in systems for all divisions and for Corporate Services. Details can also be found in Note 7 to the Consolidated Financial Statements.

The 3.4 million or 30.7% increase in the net book value of goodwill at January 27, 2001 compared to January 29, 2000 is the result of the addition of $3.6 million of goodwill on the purchase of four Mark's Division franchise stores and the addition of $0.3 million of goodwill on the purchase of four of the six Work World Division franchises purchased in fiscal 2001 less $0.5 million of goodwill amortization during fiscal 2001. See Notes 3 and 8 to the Consolidated Financial Statements.

The $1.0 million (6.7%) decline in accounts receivable in fiscal 2001 from fiscal 2000 is due primarily to the $2.4 million decrease in accounts receivable from franchise stores offset by the $1.3 million increase in receivables from the Mark's Division's growing business accounts sales as summarized in Note 4 to the Consolidated Financial Statements.

On the liability side of the balance sheet, most of the $8.8 million or 10.6% increase in total liabilities is a result of the $4.6 million 13.9% increase in long-term debt (current and long-term portion combined) and the $3.9 million increase in income taxes payable. The increase in income taxes payable is the result of increased third and fourth quarter earnings in fiscal 2001 over fiscal 2000 as summarized in Note 20 to the Consolidated Financial Statements. The increase in long-term debt (current and long-term portion combined) is summarized in Table 16 and Note 10 to the Consolidated Financial Statements.

Table 16 shows that in fiscal 2001, the Company obtained $8.7 million of new capital lease financing to finance 77.7% of its store construction, computer system additions and miscellaneous capital expenditures, made $9.8 million of capital lease and long-term debt repayments and financed 94.2% of its purchase cost of franchise stores (net of liabilities assumed) by drawing down $2.7 million of its syndicated term debt facility and setting up $3.0 million of term debt due to the vendors of the franchise stores over time.

Capital stock decreased by $1.5 million in fiscal 2001 from fiscal 2000 because during fiscal 2001, pursuant to its Normal Course Issuer Bid, the Company purchased for cancellation 1,379,348 Common Shares of the Company for a total consideration of $3,102,000 of which $1,559,000 was charged to capital stock and $1,543,000 was charged to retained earnings.
See Note 12 to the Consolidated Financial Statements.

## LONG-TERM DEBT (CURRENT AND LONG-TERM) Table 16

| | Fiscal 1999 | Fiscal 2000 | Fiscal 2001 |
|---|---|---|---|
| | ($000s) | ($000s) | ($000s) |
| Opening long-term debt (current and long-term) | 17,848 | 30,044 | 33,280 |
| Store financing (mostly capital leases) | | | |
| Mark's Division | 3,790 | 4,464 | 4,759 |
| Work World Division | 429 | 645 | 862 |
| DOCKERS® Stores Division | — | 707 | 465 |
| Computer system capital lease financing | 2,750 | 3,423 | 2,579 |
| Landlord leasehold loans | 259 | — | — |
| Leaseholds, fixtures and equipment loan for DOCKERS® test | — | 1,000 | — |
| Syndicated bank term loan | 5,000 | — | — |
| Syndicated bank term loan for acquisitions and franchise store purchases | | | |
| Paul John acquisition purchase price portion | 2,250 | 737 | — |
| Paul John acquisition working capital portion | 2,750 | (737) | — |
| Purchases of franchise stores | — | — | 2,700 |
| Paul John acquisition – estimated future earnout | — | 2,000 | — |
| Long-term debt due to vendors on purchase of individual franchise stores | — | — | 3,060 |
| | 35,076 | 42,283 | 47,705 |
| Principal repayments and capital lease payments | (5,032) | (9,003) | (9,784) |
| Closing long-term debt (current and long-term) | 30,044 | 33,280 | 37,921 |
| Current portion | 7,992 | 9,328 | 10,905 |
| Long-term portion | 22,052 | 23,952 | 27,016 |
| | 30,044 | 33,280 | 37,921 |

# Management's Discussion and Analysis

During fiscal 2001, the Company's $8.2 million in net earnings (an increase of $1.8 million or 28.1% over fiscal 2000 net earnings), less the $3.1 million spent on purchasing Company shares for cancellation plus the $0.1 million of new share issuance resulted in a $5.2 million or 8.6% increase in total equity over fiscal 2000 levels. However, this increase in total equity in fiscal 2001 was $3.6 million less than the $8.8 million increase in total debt over fiscal 2000 levels. Thus the Company's total liabilities-to-equity ratio at January 27, 2001 is 1.43-to-1 compared to 1.40-to-1 at January 29, 2000 but still better than the 1.49-to-1 at January 30, 1999. Also, this total liabilities-to-equity ratio is still well below the Company's goal of not exceeding 1.75-to-1 at the Company's fiscal year end. In fact, due to improved earnings in fiscal 2001 over fiscal 2000 during the course of the year and reduced average bank indebtedness outstanding during fiscal 2001 compared to fiscal 2000, the Company's 12-month moving average funded debt-to-equity ratio improved to 0.84-to-1 at January 27, 2001 (0.94-to-1 at January 29, 2000; 0.92-to-1 at January 30, 1999) and meets the Company's goal of not exceeding 1.0-to-1.0. See Graph 15 and Financial Goals.

Should the Company achieve its optimistic forecast in fiscal 2002, its 12-month moving average funded debt-to-equity should come in at 1-to-1 and continue to meet the Company's goal. See Financial Goals.

The Company's working capital position also remains healthy with a current ratio at January 27, 2001 of 1.75-to-1 compared to 1.77-to-1 at January 29, 2000 and 1.70-to-1 at January 30, 1999 and meets the Company's goal of not being less than 1.50-to-1 at the Company's fiscal year end. See Financial Goals.

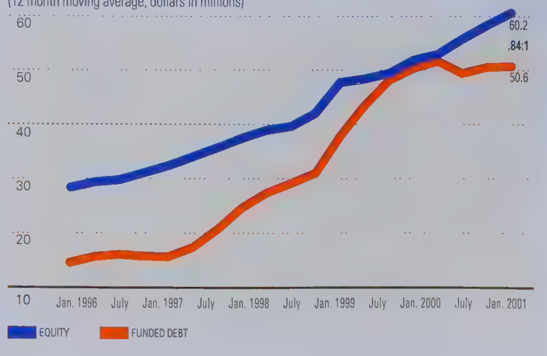
## CONSOLIDATED STATEMENTS OF CASH FLOWS

During the year ended January 27, 2001 the Company generated $18.9 million in funds flow from operations compared to $16.9 million in the prior year, representing an increase of $2.0 million or 11.8% over the prior year. The improvement in funds from operations is primarily attributable to improved net earnings and increased depreciation and amortization in fiscal 2001 over fiscal 2000. The changes in non-cash working capital (net of the effect of the purchase of franchise stores and the acquisition of subsidiaries in the prior year) improved significantly from a $6.6 million deployment of funds in fiscal 2000 to a $2.3 million generation of funds in fiscal 2001, an improvement of $8.9 million. This improvement was the result of reduced accounts receivable that generated funds, virtually no ($0.1 million) investment in merchandise inventories in fiscal 2001 compared to $4.4 million in fiscal 2000 and increased income taxes payable in fiscal 2001 which provided a $3.9 million generation of funds compared to a $2.7 million deployment of funds in fiscal 2000. These improvements were partially offset by the $1.4 million year-over-year increase in investment in other current assets and the $1.2 million pay down of accounts payable and accrued liabilities in fiscal 2001 compared to the $2.2 million increase in fiscal 2000.

The above resulted in a net inflow of funds from operations of $21.1 million, an increase of $10.8 million or 104.9% over the prior year's net inflow of $10.3 million. The Company then sourced $14.5 million of funds through $5.8 million of long-term debt ($3.1 million non-cash) and $8.7 million of capital lease financing (all non-cash for statement of cash flow

5-YEAR CAPITAL STRUCTURE (GRAPH 14)
(dollars millions)

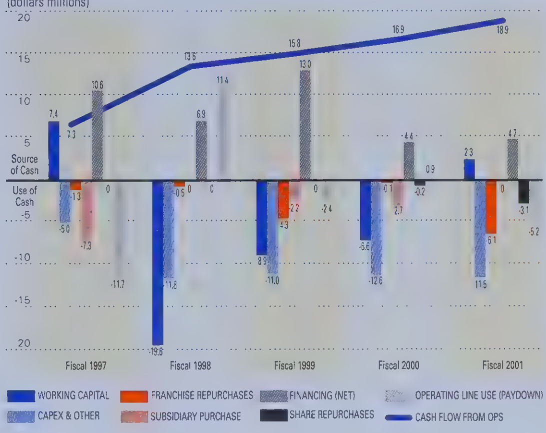

5-YEAR FUNDED DEBT TO EQUITY TO JANUARY 27, 2001 (GRAPH 15)
(12 month moving average, dollars in millions)



purposes) to fund the $11.2 million of expenditures on capital assets ($8.7 million non-cash capital leases) and the $6.1 million ($3.1 million non-cash) net of liabilities assumed for the purchase of 10 franchise stores in fiscal 2001. The non-financed $2.8 million of capital investments ($11.2 million plus $6.1 million less $14.5 million) was funded from funds flow from operations. The residual $18.3 million ($21.1 million less $2.8 million used above) net inflow of funds from operations and the $0.1 million generated from the issuance of share capital were used to make $9.8 million of capital lease and long-term debt repayments, to invest $0.3 million in other assets, and to buy back $3.1 million of share capital for cancellation. The net result is an increase in cash and cash equivalents of $5.2 million in fiscal 2001.

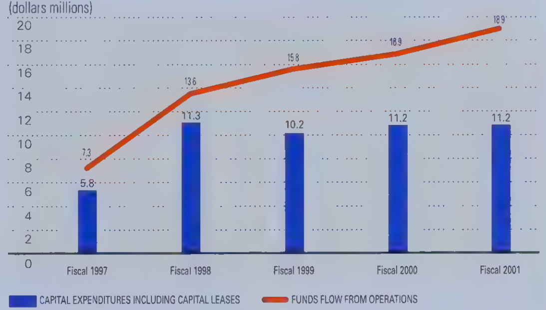
The above compares to a decrease in cash and cash equivalents of $0.9 million in fiscal 2000 when the Company obtained $13.3 million in cash and non-cash long-term debt financing, capital lease financing and deferred landlord inducements to cover the $2.7 million ($0.7 million purchase price adjustment and $2.0 million non-cash estimated future earnout) on the Paul John acquisition, $11.1 million in capital expenditures (including capital leases) and $0.1 million on the purchase of one franchise store. The resulting $0.6 million shortfall was funded from funds flow from operations. The residual $9.7 million ($10.3 million less $0.6 million) net inflow of funds from operations and the $0.1 million generated from the issuance of share capital were used to make $9.0 million of capital leases and long-term debt repayments, to invest $1.4 million in other assets, to buy back $0.2 million of share capital for cancellation and to cover the $0.1 million disposition of capital assets.

### 5-YEAR CASH FLOW TO JANUARY 27, 2001*
(GRAPH 16)




*Includes non-cash investing and financing activities

### 5-YEAR CASH FLOW FROM OPERATIONS AND CAPITAL EXPENDITURES INCLUDING CAPITAL LEASES*
(GRAPH 17)




* Includes assumption of $5.3 million of computer capital lease debt in fiscal 1998 on termination of computer services outsourcing arrangements

## RISK AND UNCERTAINTIES

Table 17 shows the external and internal risk factors that affect the Company's business, and ultimately its profitability.

Management's responsibility is to mitigate **external risk factors** to the extent possible, and to achieve an appropriate balance among the **internal risk factors**, in order to optimize profits.

The **consumer environment** in Canada as reflected by the growth in total retail sales and in specific segments within the total retail sector has been as outlined in Table 18 over the last five years.

As can be seen from Table 18, total men's wear sales have grown at a slower rate than the growth in total retail sales and sales in men's clothing stores have declined over the last five years. As well, total sales in women's clothing stores have grown at a slower rate than the growth in total retail sales and sales in shoe stores have declined.

Thus, recent economic slow-down concerns notwithstanding, Table 18 does not provide comfort that consumers will continue to purchase apparel at the rates they have historically. In fact, in recent years consumers have shown a marked preference for bigger-ticket items such as furniture, appliances, autos and electronics. The Company is confident that it has mitigated this risk in its Mark's Division by having developed a stable yet evolving product offering, "On Concept" stores, sound marketing programs and is currently growing its ladies' wear and Business-to-Business sales rapidly, and is developing its e-Commerce sales in order to continue growth in its Mark's Division by increasing its market share in the men's wear, ladies' wear and footwear markets in Canada. In addition, the Company introduced its "Corporate Store Strategy" in its Work World Division three years ago and with eight pilot stores is testing the DOCKERS® Stores concept. The addition of the Work World Division is also

### RISK FACTORS Table 17

| External | Internal |
|---|---|
| Consumer environment | Customer service |
| Competition | Sales blend |
| Seasonality | Marketing strategies |
| Weather | Store openings and closings |
| Merchandise sourcing | Expense rates in payroll, advertising, occupancy and systems |
| Foreign exchange rates | Inventory levels |
| Interest rates | Capital expenditure investments in stores and systems |
| Unsolicited offer to purchase the Company's outstanding Common Shares | Number and strength of franchise stores |
| Small cap company in current Canadian capital markets | "Corporate Store Strategy" in the Work World Division |
| Share trading information | Liabilities-to-equity levels |
| | The introduction of new divisions under new store banners, i.e., DOCKERS® Stores Division |
| | Foreign exchange exposure |
| | Interest rate exposure |

### RETAIL SALES GROWTH Table 18

| | Percentage Increase/(Decrease) over Prior Period | | | | |
|---|---|---|---|---|---|
| | Total Retail* | Men's Clothing Stores* | Total Men's wear** | Women's Clothing Stores* | Shoe Stores* |
| Year 2000 over Year 1999 | 6.3 | 0.1 | 3.8 | 2.7*** | (0.4) |
| Year 1999 over Year 1998 | 5.8 | (2.3) | 2.9 | 1.9 | (2.6) |
| Year 1998 over Year 1997 | 4.3 | (0.2) | 5.4 | 2.8 | 1.4 |
| Year 1997 over Year 1996 | 7.3 | 3.0 | 3.3 | 3.6 | (1.6) |
| Year 1996 over Year 1995 | 2.4 | (6.1) | 3.9 | (1.8) | 0.4 |
| Year 2000 over Year 1995 | 31.3 | (3.4) | 15.4 | 12.6 | (7.2) |

* Statistics Canada
** Trendex North America (includes men's wear sales in department stores, men's clothing stores and discount stores)
*** Total sales growth in total ladies' wear which includes ladies' wear sales in department stores, women's clothing stores and discount stores was 1.2% in 2000 over 1999 according to Trendex North America.

contributing to the Company's growing market share in the segments of the retail trade in which it operates in Canada and should a DOCKERS® Stores roll out ever become a reality, that would provide a further vehicle to increase the Company's market share in Canada.

**Competition** in the men's wear apparel sector remains fierce as department stores, discount department stores, other discount stores, unisex stores, sporting goods stores and men's specialty stores battle for market share within this market sector. Many of these stores are large U.S.-based retailers. Some mergers and subsequent store consolidations are also occurring within the sector. Management feels that it has mitigated this risk by keeping the Company well-positioned in this market sector by continually developing and introducing new products to enhance product selection for its customers, by offering products across all price points and by offering its customers different geographic shopping locations through its three divisions (e.g., power centres, strip malls, regional malls, etc.). Clearly, the Company does not believe that it is isolated from the effects of this competition and it intends to continue to be rigorous in maintaining good relationships with its customers, protecting its businesses, generating new customers and continuing to test the introduction of new divisions with new store banners.

The Company's business remains very **seasonal** with the fourth quarter of the last three fiscal years continuing to produce between 37% and 39% of total system annual sales and most of the annual profits, resulting from the general increase in consumer spending in that period. The sales reporting and merchandise planning modules of the Company's information system assist the Company in mitigating the risk and uncertainties associated with seasonal programs, but cannot remove them completely, as inventory orders, especially for a significant portion of offshore commodities, must be placed well ahead of the season.

Five years ago, approximately 33% of the Company's Mark's Division (the Company's largest division) annual business was in seasonal commodities specifically related to winter weather. Today, the Company's Mark's Division does 20% of its annual business in seasonal commodities specifically related to winter weather and does 20% of its annual business in seasonal commodities specifically related to summer weather. While **weather dependency** cannot be totally disassociated from the Company's business, the Company's Mark's Division has clearly spread its winter risk between winter and summer over the last five years. As the Work World Division matures, it will also follow this pattern. The DOCKERS® Stores Division is not a material part of the Company's sales at this time and because of the nature of its assortments it is less weather dependent.

In the area of **merchandise sourcing**, the Company has several sources of supply for most of its key commodities in order to be able to provide a continuous supply of quality products to its customers. While short-term interruptions could occur, the Company continues to work with both its domestic and foreign sources, to ensure that they have the ability and commitment to supply the Company so that customers' needs are met.

As part of its offshore sourcing practice, the Company advises its importers not to provide it with any goods produced in factories that use child labour or unacceptably paid or treated labour. For direct imports, the Company visits and inspects each factory it deals with to determine if the factory employs child or unacceptably paid or treated labour. The Company uses a comprehensive checklist during each inspection to ensure compliance with its ethical sourcing policies. Nevertheless, the Company cannot guarantee that such activities will not occur in the factories of the offshore suppliers with which it deals.

The Company is also a member of the Retail Council of Canada and the Retail Council's Executive Trade Committee and has adopted the voluntary code of ethical sourcing developed by the Retail Council. In addition, the Company's Corporate Code of Conduct prohibits any employee from accepting gifts, favours or trips other than a nominal amount from anyone with whom they deal on Company business.

The Company's **foreign currency** risk is generally limited to currency fluctuations between the Canadian and U.S. dollars, as most of the Company's offshore suppliers conduct business in U.S. dollars. The Company has no U.S. dollar revenues to use for the purchase of offshore commodities in U.S. dollars. The Company's practice is to enter into forward contracts for over 50% of its anticipated U.S. offshore purchases to help manage this risk. At January 27, 2001, the Company had foreign exchange collar arrangements in place for committed and anticipated foreign purchases during the Company's next fiscal year totaling $6,680,000 U.S. Under the terms of the collars, the Company bears the exchange risk on foreign purchases when the Canadian dollar trades against the U.S. dollar within the ranges and for the time periods listed in Note 13 to the Consolidated Financial

Statements. At January 27, 2001, there were $102,204 of unrealized gains on the foreign exchange collars based on the January 27, 2001 exchange rate of $1.5063. See Notes 1M and 13 to the Consolidated Financial Statements.

In addition, at January 27, 2001, the Company had foreign exchange fixed contract arrangements in place for committed and anticipated foreign merchandise purchases during the Company's next fiscal year totaling $14,064,500 U.S. Under the terms of the fixed contract arrangements, the Company has fixed its exchange risk on foreign purchases at an average Canadian dollar to the U.S. dollar rate of $1.4738 ($20,728,260 Cdn.). At January 27, 2001, the unrealized gains on these contracts were $456,866 based on a January 27, 2001 exchange rate of $1.5063. See Notes 1M and 13 to the Consolidated Financial Statements.

In fiscal 2001, the Company purchased approximately 58% of its merchandise from Canadian manufacturers in Canadian dollars (Mark's Division 57%, Work World Division 65% and DOCKERS® Stores Division 60%).

The Company's **interest rate** risk is a result of its short-term floating rate debt requirements during part of every fiscal year. Interest rate swap contracts are used to hedge this interest rate risk on over 50% of the anticipated short-term floating rate debt requirements for the coming year. At January 27, 2001, the Company had fixed its borrowing rate on $20.0 million of its anticipated short-term borrowing requirements at a 7.295% all-in rate and on $14.5 million of its anticipated short-term borrowing requirements at an all-in rate of 6.965%. The mark-to-market value of the interest rate swap contracts is a $7,069 unrecorded gain at January 27, 2001 based on the Company's floating rate interest cost of 7.25% at January 27, 2001. See Notes 1M and 13 to the Consolidated Financial Statements.

Since the Company is a public company without a management control-share block, **unsolicited offers to purchase the Company's outstanding Common Shares** could appear from time to time, as happened during fiscal 1998. This possibility may have a higher probability currently, given that institutional investors seem to be **totally disinterested in investing in small cap stocks**, and given the earnings multiple at which the Company's shares are currently trading. See trading multiples at the end of this section. While management has processes in place to have the Company's Board of Directors and non-operations management deal with such matters should they arise, there is a risk that such activities could distract operations management to the point of affecting performance and create expenses which, in combination, could cause the Company to fall short of its forecast range. See Forecast.

The **internal risk factors** are often tied together, and thus action taken to stimulate one factor often results in a negative effect on other factors:

- New store openings may increase sales, but, in the first year or two of operations of a new store, the increase in payroll costs, advertising costs, occupancy costs and interest costs may cause that store to contribute an operating loss, until it becomes a mature store from a sales per square foot perspective.
- Additional advertising campaigns may increase sales, but not sufficiently in the short term to cover the cost of the additional advertising.
- Staff reductions can lower payroll costs, but may cause a loss of sales due to lower sales per customer and customer dissatisfaction with the level of sales service and stock outages in the stores.

Management believes that it is achieving an appropriate balance among the internal risk factors in order to optimize profits.

**The Mark's Division franchise operations** consisted of 25 franchise stores at January 27, 2001, 88% of which meet Company-set capitalization standards. During fiscal 2001, the Mark's Division purchased four of its franchise stores and converted them to corporate stores. This franchise store purchase activity was higher than normal in fiscal 2001 as three franchisees decided to retire during that fiscal year and offered to sell their stores to the Mark's Division. The Mark's Division franchise operation is very stable and is expected to shrink a little over time with the occasional franchisee selling his or her store to the Corporation.

**With a "Corporate Store Strategy"** for new store openings (four in fiscal 2001, five in fiscal 2000 and nine in fiscal 1999) and the purchase of franchise stores as they become available (six purchased franchise stores in fiscal 2001, one in fiscal 2000 and 31 in fiscal 1999) and the closure of non-performing franchise stores, the **Work World franchise operation** has reduced to 90 franchise stores at January 27, 2001 from 150 at January 25, 1997. At January 27, 2001, 51% of the remaining Work World franchises meet Company-set capitalization standards that were developed after the December 1, 1996 acquisition date of Work World, as there were no capitalization standards under the previous administration. Every year, the Work World Division introduces at least half a dozen or so new merchandise programs and continually seeks to

improve upon existing assortments in order to positively impact a significant part of the merchandise offering and, it is hoped, store sales in both the Work World Division's franchise and corporate stores.

In addition, over the last several years, the Company has put the necessary credit controls in place to control the level of merchandise shipments and other cost risk services provided to the Work World franchisees. Nevertheless, given the capitalization level of many of these stores, there is a risk that more of the stores could close, causing a loss of royalty and other revenues and bad debt write-offs for the Company.

In its purchased franchise stores and in its new corporate stores, the Work World Division expects to generate the appropriate sales per square foot, gross margin rate, and expense rate to produce a front-line contribution higher than the royalty rates earned from franchisees on franchise sales, although this has not yet occurred and remains a risk factor at this time.

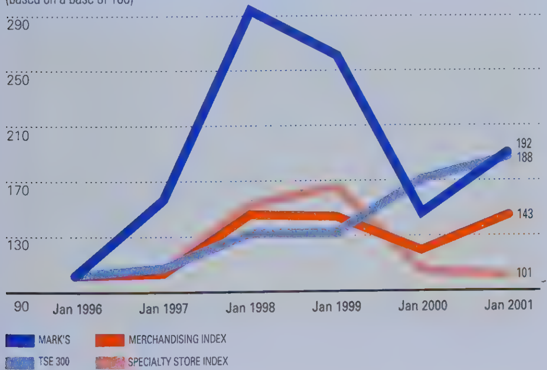
During the second half of 1999 (fiscal 2000), the Company launched its **DOCKERS® Stores Division** with the opening of five test stores. Three more test stores were added during 2000 (fiscal 2001). The business formula for the DOCKERS® Stores Division requires that over time, sales per square foot track to mall averages, a 40% gross margin rate be achieved and that sales be made up of an equal blend of men's and women's products and an equal blend of tops and bottoms. As Table 10 (EBITDA) showed, the near-term adverse impact to earnings to launch this new division have been high. As well, there is still a risk that this or any other new division will not blossom. The Company believes that it has mitigated the risk for the DOCKERS® test by basing the store banner on an established, internationally recognized brand, by offering customers additional DOCKERS® assortments not carried in other stores, by selecting quality store locations and by providing excellent customer service. No additional stores are planned to be added to this test in 2001 (fiscal 2002) as the division will concentrate on improving merchandise assortments as it must get its sales per square foot to track higher in order to succeed.

During the year ended January 27, 2001, the Company's **shares traded at multiples** ranging from 4.5 to 8.3 times earnings per share. This compares to a range of uncalculated negative price-earnings ratios to 99+ times price-earnings ratios for the TSE Merchandising Index and price-earnings ratios ranging from 12.1 to 19.8 times for the TSE Specialty Stores Index during the Company's fiscal 2001 year. Also during fiscal 2001, the Company's share price ranged from 55.7% to 102.5% of the Company's January 27, 2001 book value per share.

Graph 18 compares the yearly percentage changes over the last five years in the cumulative shareholder return on the Common Shares of the Company (assuming a $100 investment was made on January 28, 1996) with the cumulative total return of the TSE 300 Stock Index, the TSE Merchandising Index and the TSE Specialty Stores Index. No dividends have been paid by the Company; therefore it was not necessary to build a dividend reinvestment feature into the graph. The graph spikes upward in fiscal 1998 because, as noted earlier, the Company was subject to an unsolicited offer to purchase the Company's outstanding Common Shares in the fall of 1997.

## 5-YEAR SHARE PERFORMANCE (GRAPH 18)

(based on a base of 100)



# Management's Responsibility for Financial Statements

The accompanying Consolidated Financial Statements of the Company and all information in the annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the financial statements. The Consolidated Financial Statements were prepared by management in accordance with accounting principles generally accepted in Canada, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in Note 1 to the Consolidated Financial Statements.

Management is responsible for the integrity and objectivity of the Consolidated Financial Statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board, composed solely of Directors who are not employees of the Company, is appointed annually by the Board of Directors.

The Audit Committee of the Board meets regularly with financial management of the Company and with the shareholders' independent auditors to discuss internal controls, audit matters, including audit scope and auditor remuneration, and financial reporting issues and reports to the Board thereon. The independent shareholders' auditors have unrestricted access to the Audit Committee. The Audit Committee also reviews the annual Consolidated Financial Statements and the Management's Discussion and Analysis, reports to the Board thereon and makes recommendations with respect to acceptance for inclusion thereof in the annual report. The Audit Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Company's auditors.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

Michael Lambert, Chief Financial Officer
Calgary, Alberta, March 9, 2001

# Auditors' Report

**TO THE SHAREHOLDERS OF MARK'S WORK WEARHOUSE LTD.**

We have audited the Consolidated Balance Sheets of Mark's Work Wearhouse Ltd. as at January 30, 1999, January 29, 2000 and January 27, 2001, and the Consolidated Statements of Earnings and Retained Earnings and Cash Flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at January 30, 1999, January 29, 2000 and January 27, 2001 and the results of its operations and its cash flows for each of the years then ended, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Chartered Accountants
Calgary, Alberta March 9, 2001

# Consolidated Balance Sheets

| (thousands) | As at January 30, 1999 | As at January 29, 2000 | As at January 27, 2001 |
|---|---|---|---|
| ASSETS | | | |
| **Current assets** | | | |
| Cash and cash equivalents (Note 1D) | $ 2,710 | $ 1,774 | $ 6,993 |
| Accounts receivable (Note 4) | 13,364 | 15,010 | 13,998 |
| Merchandise inventories | 76,982 | 81,468 | 84,483 |
| Other current assets (Note 5) | 3,304 | 3,223 | 4,913 |
| | 96,360 | 101,475 | 110,387 |
| **Other assets (Note 6)** | 975 | 1,614 | 1,056 |
| **Capital assets (Note 7)** | 23,531 | 25,893 | 28,148 |
| **Future income taxes (Notes 1N & 17)** | 3,413 | 3,026 | 2,997 |
| **Goodwill (Note 8)** | 8,713 | 11,076 | 14,472 |
| | $ 132,992 | $ 143,084 | $ 157,060 |
| LIABILITIES | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 43,557 | $ 45,730 | $ 46,131 |
| Income taxes payable | 4,976 | 2,238 | 6,186 |
| Current portion of long-term debt (Note 10) | 7,992 | 9,328 | 10,905 |
| | 56,525 | 57,296 | 63,222 |
| **Long-term debt (Note 10)** | 22,052 | 23,952 | 27,016 |
| **Deferred gains (Note 7)** | 1,109 | 2,265 | 2,101 |
| | 79,686 | 83,513 | 92,339 |
| SHAREHOLDERS' EQUITY | | | |
| **Capital stock (Note 12)** | 32,696 | 32,715 | 31,228 |
| **Retained earnings** | 20,610 | 26,856 | 33,493 |
| | 53,306 | 59,571 | 64,721 |
| | $ 132,992 | $ 143,084 | $ 157,060 |

Approved by the Board

Michael Fox

Michael Fox, Director

Garth Mitchell

Garth Mitchell, Director

# Consolidated Statements of Earnings and Retained Earnings

| (thousands except per Common Share amounts) | 52 weeks ended January 30, 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 |
|---|---|---|---|
| **Corporate and franchise sales (Note 14)** | $ 417,468 | $ 437,670 | $ 487,979 |
| **Corporate operations** | | | |
| **Front-line operations (Note 1B)** | | | |
| Sales | $ 283,401 | $ 314,547 | $ 363,870 |
| Cost of sales | 169,163 | 186,723 | 214,361 |
| Gross margin | 114,238 | 127,824 | 149,509 |
| Front-line expenses | | | |
| Personnel, advertising and other | 51,869 | 57,272 | 67,366 |
| Occupancy | 25,868 | 31,094 | 35,738 |
| Depreciation and amortization | 5,350 | 6,231 | 6,664 |
| Interest – short term | 2,015 | 1,610 | 1,480 |
| | 85,102 | 96,207 | 111,248 |
| Front-line contribution | 29,136 | 31,617 | 38,261 |
| Franchise royalties and other (Note 15) | 7,016 | 6,640 | 6,558 |
| Net front-line contribution before back-line expenses | 36,152 | 38,257 | 44,819 |
| **Back-line operations (Note 1B)** | | | |
| Back-line expenses | | | |
| Personnel, administration and other | 15,124 | 16,590 | 18,744 |
| Occupancy | 998 | 1,015 | 1,038 |
| Depreciation and amortization | 2,711 | 3,372 | 3,624 |
| Software development and maintenance costs | 906 | 1,201 | 1,238 |
| Computer services | 571 | 687 | 854 |
| Interest – long term | 1,350 | 2,407 | 2,498 |
| Franchise bad debt provisions (recoveries) | 219 | 300 | (251) |
| | 21,879 | 25,572 | 27,745 |
| **Earnings before provision for closure of U.S. pilot stores, income taxes and goodwill amortization** | 14,273 | 12,685 | 17,074 |
| Provision for closure of U.S. pilot stores (Note 16) | 2,961 | — | — |
| **Earnings before income taxes and goodwill amortization** | 11,312 | 12,685 | 17,074 |
| **Income Taxes (Notes 1N and 17)** | | | |
| Current expense | 6,566 | 5,536 | 8,317 |
| Future expense (benefit) | (1,322) | 387 | 29 |
| | 5,244 | 5,923 | 8,346 |
| **Net earnings before goodwill amortization** | 6,068 | 6,762 | 8,728 |
| Goodwill amortization | 316 | 375 | 548 |
| **Net earnings** | 5,752 | 6,387 | 8,180 |
| **Retained earnings at beginning of year** | 14,858 | 20,610 | 26,856 |
| Purchase of capital stock for cancellation (Note 12) | — | (141) | (1,543) |
| **Retained earnings at end of year** | $ 20,610 | $ 26,856 | $ 33,493 |
| **Earnings per Common Share** | | | |
| Before goodwill amortization | 22¢ | 24¢ | 32¢ |
| Basic | 21¢ | 23¢ | 30¢ |
| Fully diluted – restated (Note 1K) | 20¢ | 23¢ | 29¢ |

# Consolidated Statements of Cash Flows

| (thousands) | 52 weeks ended January 30 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 |
|---|---|---|---|
| **Cash and cash equivalents generated (deployed)** | | | |
| **Operations** | | | |
| Net earnings | $ 5,752 | $ 6,387 | $ 8,180 |
| Non-cash items | | | |
| Provision for closure of U.S. pilot stores (Note 16) | 2,961 | — | — |
| Depreciation and amortization | 8,377 | 9,978 | 10,836 |
| Loss (gain) on disposition of capital assets | 47 | 124 | (164) |
| Future income taxes (benefits) (Note 1N) | (1,322) | 387 | 29 |
| Funds provided by operations | 15,815 | 16,876 | 18,881 |
| Changes in non-cash working capital (net of effect of acquisition of subsidiaries and purchase of franchise stores) | | | |
| Accounts receivable | (605) | (1,646) | 1,012 |
| Merchandise inventories | (6,755) | (4,439) | (144) |
| Other current assets | (614) | 73 | (1,330) |
| Accounts payable and accrued liabilities | 771 | 2,173 | (1,227) |
| Income taxes payable | (1,707) | (2,738) | 3,948 |
| | (8,910) | (6,577) | 2,259 |
| | 6,905 | 10,299 | 21,140 |
| **Investing** | | | |
| Acquisitions of subsidiaries net of cash acquired (Note 2) | (2,196) | (737) | — |
| Purchases of franchise stores (Note 3) | (4,320) | (50) | (3,054) |
| Purchases of capital assets | (3,183) | (1,915) | (2,485) |
| Other assets | (720) | (1,367) | (304) |
| Disposition of capital assets | (160) | (73) | 36 |
| | (10,579) | (4,142) | (5,807) |
| **Financing** | | | |
| Proceeds of long-term debt | 10,259 | 1,000 | 2,700 |
| Retirement of long-term debt | (1,417) | (3,424) | (3,278) |
| Repayment of capital lease liabilities | (3,615) | (5,579) | (6,506) |
| Deferred landlord inducements | — | 1,032 | — |
| Share capital purchased for cancellation (Note 12) | — | (233) | (3,102) |
| Issuance of share capital for cash (Note 12) | 808 | 111 | 72 |
| | 6,035 | (7,093) | (10,114) |
| **Net cash and cash equivalents generated (deployed)** | 2,361 | (936) | 5,219 |
| **Cash and cash equivalents at beginning of year (Note 1D)** | 349 | 2,710 | 1,774 |
| **Cash and cash equivalents at end of year (Note 1D)** | $ 2,710 | $ 1,774 | $ 6,993 |

# Supplementary Schedules to Consolidated Statements of Cash Flows

| (thousands) | 52 weeks ended January 30 1999 | 52 weeks ended January 29, 2000 | 52 weeks ended January 27, 2001 |
|---|---|---|---|
| **Schedule of non-cash investing and financing activities** | | | |
| Capital assets acquired by means of capital leases | $ (6,969) | $ (9,239) | $ (8,665) |
| Capital lease funding to acquire capital assets | $ 6,969 | $ 9,239 | $ 8,665 |
| Acquisition of Paul John Enterprises (Note 2) | $ — | $ (2,000) | $ — |
| Estimated long-term debt on future earnout of Paul John Enterprises acquisition (Notes 2 and 10) | $ — | $ 2,000 | $ — |
| Purchases of individual franchise stores by means of interest-bearing long-term debt (Notes 3 and 10) | $ — | $ — | $ (900) |
| Interest-bearing long-term debt on purchases of individual franchise stores (Notes 3 and 10) | $ — | $ — | $ 900 |
| Purchases of individual franchise stores by means of non-interest bearing long-term debt (Notes 3 and 10) | $ — | $ — | $ (2,160) |
| Non-interest bearing long-term debt on purchases of individual franchise stores (Notes 3 and 10) | $ — | $ — | $ 2,160 |
| **Supplemental disclosures of cash flow information** | | | |
| Cash paid for | | | |
| Short-term interest | $ 1,982 | $ 1,645 | $ 1,448 |
| Long-term interest | $ 1,251 | $ 2,435 | $ 2,534 |
| Income taxes | $ 8,273 | $ 8,274 | $ 4,369 |

# Notes to Consolidated Financial Statements

**January 27, 2001**

*(dollar amounts in tables in thousands except operating credit facilities table, financial instrument tables on foreign currencies, earnings per Common Share and exercise price of options to purchase Common Shares)*

## 1. SIGNIFICANT ACCOUNTING POLICIES

The Company operates Mark's Work Wearhouse, (Mark's, called L'Équipeur in Quebec), Work World and DOCKERS® corporate stores and is involved in the operations of franchise-owned Mark's and Work World stores, all operating in the retail clothing and footwear industry within Canada. Through a branch operation in fiscal January 1999, the Company also operated two Mark's pilot stores in the United States. The Mark's U.S. pilot stores were closed in fiscal January 2000. See Note 16. These financial statements are prepared by management in accordance with accounting principles generally accepted in Canada.

### A. Fiscal Year

The fiscal year of the Company consists of a 52-week period ending on the last Saturday in January each year. The fiscal year for the Consolidated Financial Statements presented is the 52-week period ended January 27, 2001 and comparably the 52-week periods ended January 29, 2000 and January 30, 1999.

### B. Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Front-line operations represent those activities where the Company's people come face-to-face with the customers and back-line operations represent those activities that support the effective performance of front-line activities.

### C. Franchise Operations

Initial franchise fees are recorded as income when the store has been opened whether the balance has been received or is receivable. Deposits received on initial franchise fees for stores not yet opened are included in current liabilities on the balance sheet. Royalties, based on sales by the franchisees, are recorded as income as they are earned. Costs are expensed as incurred as part of either front-line or back-line expenses.

### D. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments.

### E. Merchandise Inventories

Merchandise inventories are accounted for by the retail method and are carried at the lower of estimated cost and anticipated selling price, less an expected average gross margin.

### F. Capital Assets

Depreciation is designed to amortize the cost of capital assets over their estimated useful lives. Capital assets are amortized at the following annual rates:

| | |
|---|---|
| ■ Building | On a straight-line basis at 7% per year |
| ■ Leasehold improvements | On a straight-line basis over the term of the lease |
| ■ Furniture, fixtures and equipment | On a straight-line basis at 20% per year |
| ■ Fixtures, equipment and computer equipment and operating software capital leases | On a straight-line basis over the term of the lease |

### G. Goodwill

Goodwill is the excess of the cost of investments in subsidiaries or purchased franchise stores over the fair value of the net tangible assets acquired. Goodwill is being amortized on a straight-line basis over the estimated life of the benefit as determined for each acquisition or purchased franchise store. The Company uses the cost recovery method to assess the value of goodwill. The value of goodwill is regularly evaluated by reviewing the financial returns of the related business or purchased franchise stores, taking into account the risk associated with the investment. Any permanent impairment in the value of goodwill is written off against earnings. The weighted average remaining amortization period is 25.7 years (January 29, 2000: 28.7 years; January 30, 1999: 30.2 years). No goodwill is set up on the reacquisition of troubled franchises. See Notes 2, 3 and 8.

### H. Translation of Foreign Currencies

Inventory purchases in foreign currencies are translated at the rate of exchange in effect on the dates the purchases occur and payable balances at the balance sheet date, in both cases after taking into account the effect of any related foreign exchange hedging contracts.

In fiscal 1999, the Mark's U.S. pilot stores were considered integrated and thus were translated using the temporal method, whereby monetary items were translated at the rate of exchange in effect at the balance sheet dates, non-monetary items were translated at historical exchange rates, and revenue and expense items except for depreciation and amortization were translated at the rate of exchange in effect on the dates they occurred.

**I. Store Opening Expenses**

Store opening expenses are capitalized and amortized over a three-year period commencing in the quarter following the store opening. See Notes 5 and 6.

**J. Software Development and Maintenance Costs**

Costs incurred, which are primarily programmers' salaries and contracted amounts to develop or maintain software for the Company's proprietary management information systems, including year 2000 modifications made during fiscal 1999 and fiscal 2000, are expensed as incurred.

**K. Earnings Per Common Share**

Earnings per Common Share before goodwill amortization and basic earnings per Common Share are calculated using the weighted average number of Common Shares outstanding during the year. See Note 12. The Company adopted the treasury stock method of accounting for fully diluted earnings per Common Share in fiscal 2001. Formerly, generally accepted accounting principles required that the imputed earnings method be used for determining the dilutive effect of options. Excluded from the computation of fully diluted earnings per share were options outstanding of 1,201,300 exercisable at prices ranging from \$1.95 to \$4.25 (2000 – 497,700 at prices ranging from \$3.85 to \$4.25; 1999 – 260,300 at prices ranging from \$4.20 to \$4.25) as the options' exercise prices were greater than the average market price of the Company's common stock. The treasury stock method computes the number of incremental shares by assuming the outstanding stock options exercisable at exercise prices below the average market price for the applicable fiscal year are exercised and then that number of incremental shares is reduced by the number of shares that could have been repurchased from the issuance proceeds, using the average market price of the Company's shares for the applicable fiscal year. Fiscal 1999 and fiscal 2000 fully diluted earnings per share have been restated to reflect the treasury stock method. The effect of the restatement of fully diluted earnings per share was nil in fiscal 1999 and an increase of one cent per share in fiscal 2000.

**L. Stock-based Compensation Plan**

The Company's stock-based compensation plans are described in Note 12. No compensation expenses are recognized for this plan when stock options are issued to employees or directors. Any consideration paid by employees and directors on exercise of stock options is credited to share capital.

**M. Financial Instruments**

Interest rate swap contracts are used to hedge interest rate risk on over 50% of the Company's anticipated short-term floating rate debt requirements during its next fiscal year. The interest rate differentials to be paid or received under such contracts are recognized as adjustments to interest expenses in that fiscal year.

Foreign currency risks related to the purchase of merchandise for resale are hedged for over 50% of the Company's anticipated purchases. Any costs associated with these purchases are included in the Canadian dollar cost of these products.

The estimated fair values of accounts receivable and accounts payable approximate book value. See Note 10 for the estimated fair value of fixed rate and non-interest bearing debt and Note 13 for the estimated fair value of financial instruments.

**N. Future Income Taxes**

The Company adopted the asset/liability method of accounting for future income taxes in fiscal 1999. Formerly, generally accepted accounting principles required that the deferred income tax method be used. The future income tax asset results from differences between the tax base and carrying values of capital and other assets and differences in the accounting and tax treatment of certain cost.

**O. Future Benefits**

The Company has a retirement plan in which all permanent employees may participate after a one-year service period, if they desire. The retirement plan is a combined group registered retirement savings plan and deferred profit-sharing plan, whereby the Company (providing it was profitable in the previous year) matches employees' contributions up to 4% of the employee's salary. Contributions made by the Company to the retirement plan are expensed when they are made.

In addition, for any other future benefit plans, the Company accrues the liability over the estimated remaining service life of the employee. The Company does not provide its employees with post-retirement health, insurance and other benefits at this time.

**P. Prior Year Amounts**

Certain prior years' amounts are reclassified to conform to the current year's presentation. None of these reclassifications are significant.

## 2. ACQUISITION

Effective November 1, 1998, the Company acquired all of the outstanding shares of Paul John Enterprises Ltd. (Paul John) for a cash down payment of $2,253,000. During the year ended January 29, 2000, the Company recorded a purchase price adjustment of $737,000. This amount was added to the original purchase price as additional goodwill.

In addition, the agreement stated that there could be a further future earnout amount based on sales and capital expenditures of the operation over the five years subsequent to January 30, 1999, payable no later than April 15, 2004. At January 29, 2000, the Company estimated this earnout to be $2,000,000. This amount was added to the purchase price as additional goodwill in the fiscal year ended January 29, 2000. At January 27, 2001, the Company has estimated that no further earnout amount is required. Paul John owned and operated 19 Work World franchise stores in British Columbia and the Yukon, which are now being operated as corporate stores in the Company's Work World Division.

The acquisition was accounted for by the purchase method, with the results of operations from the acquired business included from the November 1, 1998 acquisition date.

The acquisition resulted in goodwill of $328,000 recorded in the Company's January 30, 1999 fiscal year and goodwill of $2,737,000 recorded in the Company's January 29, 2000 fiscal year. The goodwill is being amortized on a straight-line basis over 25.7 years (January 29, 2000: 26.7 years; January 30, 1999: 27.7 years) which represents the average remaining life of the original franchise agreements plus one extension period.

The net assets acquired were:

| | |
|---|---|
| Cash | $ 57 |
| Other current assets | 7,572 |
| Capital assets | 781 |
| Assumed goodwill | 537 |
| Acquisition goodwill (see Notes 1G and 8) | 328 |
| | 9,275 |
| Liabilities assumed | (7,022) |
| Acquisition cost – during fiscal year ended January 30, 1999 | 2,253 |
| Acquisition goodwill – purchase price adjustment determined during fiscal year ended January 29, 2000 (see Notes 1G and 8) | 737 |
| Acquisition goodwill – future earnout estimated during fiscal year ended January 29, 2000 (see Notes 1G and 8) | 2,000 |
| Acquisition cost | $ 4,990 |

## 3. PURCHASES OF FRANCHISE STORES

As opportunities arise, both the Mark's and Work World Divisions purchase their division's respective franchise stores and convert them to corporate stores.

Each purchase is accounted for by the purchase method, with the results of the acquired franchise store included from the date of acquisition.

The purchase sometimes results in goodwill, which is being amortized on a straight-line basis. The weighted average remaining amortization period is 20.6 years (January 29, 2000: 23.0 years; January 30, 1999: 22.6 years).

The net assets acquired were:

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Number of stores | 14 | 1 | 10 |
| Current assets | $ 3,160 | $ 47 | $ 2,989 |
| Capital assets | 510 | 3 | 565 |
| Other assets | 512 | — | 244 |
| Acquisition goodwill (see Notes 1G and 8) | 969 | — | 3,944 |
| | 5,151 | 50 | 7,742 |
| Liabilities assumed | (831) | — | (1,628) |
| Acquisition cost | $ 4,320 | $ 50 | $ 6,114 |

The Company recorded interest-bearing long-term debt due to vendors of $900,000 and non-interest bearing long-term debt due to vendors of $2,160,000 on the fiscal 2001 purchases of franchise stores. See Note 10.

## 4. ACCOUNTS RECEIVABLE

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Receivables from franchise stores | | | |
| Mark's stores | $ 5,597 | $ 7,232 | $ 5,357 |
| Work World stores | 1,744 | 1,460 | 969 |
| Receivables from business account sales | 3,668 | 4,568 | 5,851 |
| Landlord leasehold rebates receivable | 1,661 | 1,653 | 1,145 |
| Co-op advertising receivable | 1,142 | 654 | 385 |
| Other accounts receivable | 1,162 | 1,242 | 1,598 |
| | 14,974 | 16,809 | 15,305 |
| Allowance for doubtful accounts related primarily to receivables from franchise stores | (1,610) | (1,799) | (1,307) |
| | $ 13,364 | $ 15,010 | $ 13,998 |

The Company operates in the retail industry in Canada. The amounts receivable from business account sales are receivable from 5,800 customers (January 29, 2000: 5,000 customers; January 30, 1999: 4,200 customers). There are no individually significant clients who could create a credit risk to the Company in its operated stores. Accounts receivable from Mark's franchise stores for inventory purchases, royalties, and other services can have large balances at certain times of the year. The Company has security instruments in place over the franchise operations of Mark's franchisees, usually postponed to the franchisees' principal banker plus other personal security, the combined value of which may or may not cover the total receivable position. The Company has receivables from Work World franchise stores for royalties, acquisition fees, merchandise surcharges and for the costs of other services. In addition, during the fiscal year ended January 27, 2001, the Company assumed supplier payment responsibility for approximately 3% of the Work World franchise stores' annual sales (January 29, 2000: 7%; January 30, 1999: 15%) for inventory provided by the Company to Work World franchise stores or for inventory provided directly to Work World franchise stores by the Company's suppliers. Accounts receivable from Work World franchise stores are unsecured.

## 5. OTHER CURRENT ASSETS

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Prepaid expenses and supplies | $ 2,396 | $ 2,102 | $ 3,785 |
| Deposits | 368 | 379 | 313 |
| Current portion of store opening expenses (see Note 1l) | 540 | 742 | 815 |
| | $ 3,304 | $ 3,223 | $ 4,913 |

## 6. OTHER ASSETS

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Employee relocation loans | $ 26 | $ 467 | $ 145 |
| Store opening expenses (see Note 1l) | 471 | 823 | 583 |
| Other | 478 | 324 | 328 |
| | $ 975 | $ 1,614 | $ 1,056 |

## 7. CAPITAL ASSETS AND DEFERRED GAINS

| | 1999 | | 2000 | | 2001 | |
|---|---|---|---|---|---|---|
| | Cost | Net Book Value | Cost | Net Book Value | Cost | Net Book Value |
| Land | $ 45 | $ 45 | $ — | $ — | $ — | $ — |
| Building | 452 | 312 | — | — | — | — |
| Leasehold improvements | 4,494 | 689 | 5,693 | 1,763 | 3,515 | 1,945 |
| Furniture, fixtures and equipment | 21,720 | 7,453 | 22,633 | 6,051 | 11,039 | 6,152 |
| Fixtures & equipment under capital leases | 13,319 | 9,520 | 18,437 | 11,792 | 22,379 | 14,385 |
| Computer equipment and operating software under capital leases | 9,047 | 5,512 | 11,768 | 6,287 | 8,914 | 5,666 |
| | $ 49,077 | $ 23,531 | $ 58,531 | $ 25,893 | $ 45,847 | $ 28,148 |

See Note 2 for the effect on capital assets of the November 1, 1998 acquisition of Paul John. See Note 3 for the effect on capital assets of franchise store purchases.

The Company finances some of its store capital expenditures by selling and then leasing back these capital assets. The gains realized on the sales have been deferred and are being amortized over the terms of the leases. The deferred gain balance at January 27, 2001 is $1,107,000 (January 29, 2000: $1,083,000; January 30, 1999: $890,000).

The Company receives landlord inducements on some of its store lease agreements. The amounts received from landlords have been deferred and are being amortized over the term of the store leases. The deferred gain balance at January 27, 2001 is $913,000 (January 29, 2000 is $1,032,000; January 30, 1999 is nil).

The Company sold and leased back its corporate office building in fiscal 1992. The gain realized on the sale has been deferred and is being amortized over the original 128-month term of the lease. The deferred gain balance at January 27, 2001 is $81,000 (January 29, 2000: $150,000; January 30, 1999: $219,000).

### 8. GOODWILL

| | 1999 Cost | 1999 Net Book Value | 2000 Cost | 2000 Net Book Value | 2001 Cost | 2001 Net Book Value |
|---|---|---|---|---|---|---|
| Work World acquisition | $ 7,146 | $ 6,690 | $ 7,146 | $ 6,479 | $ 7,146 | $ 6,268 |
| Paul John acquisition (Note 2) | 865 | 853 | 3,602 | 3,540 | 3,602 | 3,405 |
| Purchased Mark's Division franchise stores (Note 3) | 473 | 300 | 473 | 223 | 3,970 | 3,704 |
| Purchased Work World Division franchise stores (Note 3) | 898 | 870 | 872 | 834 | 1,173 | 1,095 |
| | $ 9,382 | $ 8,713 | $ 12,093 | $ 11,076 | $ 15,891 | $ 14,472 |

(See Note 1G)

### 9. OPERATING CREDIT FACILITIES

The Company's operating credit facilities are:

| Facility | Amount | Interest Rate |
|---|---|---|
| Extendible 364-day revolving operating facility from a syndication of Canadian chartered banks. | $ 75 million | Rate options based on prime rate (7.25% at January 27, 2001) and bankers' acceptance rates plus margin, if applicable, based on a certain interest coverage test. |
| Extendible 364-day revolving term credit facility (each advance becomes a non-revolving reducing 5-year term loan) from a syndicate of Canadian chartered banks. | $ 8 million | Rate based on prime rate (7.25% at January 27, 2001) plus margin, if applicable, based on a certain interest coverage test. See Note 10. |
| Contingent liability demand line to support contingent exposure under foreign exchange and interest rate swap arrangements from a Canadian chartered bank. | $ 5 million | Quoted rates from time to time. See Notes 1M and 13 on financial instruments. |
| Contingent liability demand line to support contingent exposure under foreign exchange and interest rate swap arrangements from a Canadian chartered bank. | $ 2.9 million | Quoted rates from time to time. See Notes 1M and 13 on financial instruments. |

The $75,000,000 operating line of credit includes limits for letters of credit and is limited to the lesser of $75,000,000 and the sum of 60% of eligible inventories as defined, plus 75% of eligible receivables as defined, plus during June through September and to a maximum of $5,000,000, 40% of eligible franchise receivables as defined. Both the $75,000,000 operating line and the $8,000,000 revolving term credit facility are extendible, at the Company's request and the lenders' discretion, for subsequent 364-day periods. Failing renewal of the $75,000,000 operating line, as long as there has not been an event of default, 50% of the then outstanding amounts under such operating facilities could be converted into non-revolving term loans repayable over 36 months.

Security provided includes a general security agreement; a fixed and floating charge demand debenture registered in various jurisdictions, hypothec on movables registered in Quebec, general assignment of accounts receivable and security under the Bank Act over inventory registered in various jurisdictions. The credit agreements require guarantees and postponements of claim from all material subsidiaries (as defined) secured by general security agreements or fixed and floating charge debentures. There are no such material subsidiaries at January 27, 2001.

## 10. LONG-TERM DEBT

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Syndicated bank term loan at prime plus margin based on a certain interest coverage test plus one quarter (7.50% at January 27, 2001, 6.75% at January 29, 2000 and 7.0% at January 30, 1999). | $ 5,000 | $ 4,000 | $ 3,000 |
| Syndicated bank term loan at prime plus margin based on a certain interest coverage test plus one quarter (7.50% at January 27, 2001, 6.75% at January 29, 2000 and 7.0% at January 30, 1999). See Note 9. | 5,000 | 4,000 | 5,850 |
| Bank term loan; 7.5% interest | 4,200 | 2,800 | 1,400 |
| Fixture and equipment capital lease obligations – 2001, 9.2% average interest rate over 42 months (2000: 9.0% average interest rate over 46 months; 1999: 9.0% average interest rate over 45 months). See Note 7. | 9,907 | 12,784 | 15,611 |
| Computer equipment and operating software capital lease obligations – 2001, 8.9% average interest rate over 37 months (2000: 10.5% average interest rate over 36 months; 1999: 10.1% average interest rate over 29 months). See Note 7. | 5,937 | 6,696 | 6,000 |
| Leaseholds, fixture and equipment loan for DOCKERS® Stores test – non-interest bearing | — | 1,000 | 1,000 |
| Estimated future earnout payable – on Paul John Enterprises acquisition – non-interest bearing. See Note 2. | — | 2,000 | 2,000 |
| Long-term debt payable – on acquisition of individual franchise stores – non-interest bearing. See Note 3. | — | — | 2,160 |
| Long-term debt payable – on acquisition of individual franchise stores – interest bearing. See Note 3. | — | — | 900 |
| | 30,044 | 33,280 | 37,921 |
| Less: amount due within one year | (7,992) | (9,328) | (10,905) |
| Total | $ 22,052 | $ 23,952 | $ 27,016 |

If rates currently available to the Company for interest-bearing, long-term debt (including amounts due within one year), with similar terms and maturities are used, the estimated fair values of fixed rate debt as at January 27, 2001 are $31,722,000 (January 29, 2000: $30,251,000 and January 30, 1999: $30,130,000). The estimated fair values of non-interest bearing, long-term debt approximate book value.

On December 4, 1998, the Company obtained a $5,000,000 five-year term facility from a syndication of Canadian chartered banks to refinance a portion of pre-existing bank indebtedness. The loan bears interest at prime plus a margin based on a certain interest coverage test plus one quarter (7.50% at January 27, 2001, 6.75% at January 29, 2000 and 7.0% at January 30, 1999) and is repayable in 20 equal quarterly principal plus interest payments that began January 31, 1999. Security provided is described in Note 9.

On December 4, 1998, the Company obtained an extendible, 364-day revolving term credit facility and took a $5,000,000 advance which became a non-revolving five-year term facility from a syndication of Canadian chartered banks to finance the acquisition and working capital funding requirements of Paul John Enterprises. See Note 2. On July 30, 2000, the Company obtained an increase in this facility limit to a revised limit of $8,000,000. See Note 9. During fiscal 2001, $2,700,000 of the facility was advanced to finance the purchase of franchise stores. See Note 3. The loans bear interest at prime plus a margin based on a certain interest coverage test plus one quarter (7.50% at January 27, 2001, 6.75% at January 29, 2000 and 7.0% at January 30, 1999) and are repayable in 20 equal quarterly principal plus interest payments that begin, for each loan, 90 days after the advance. Security provided is described in Note 9.

On December 9, 1996, the Company obtained a $7,000,000, five-year term facility from a Canadian chartered bank to finance the acquisition of Work World. The loan has a fixed interest rate of 7.5% and is repayable in 20 equal quarterly principal plus interest payments that began on March 31, 1997. Security provided is described in Note 9.

The fixtures and equipment under capital lease obligations and the computer equipment and operating software under capital lease obligations are the security for those respective obligations.

On September 8, 1998, the Company entered into an exclusive agreement with Levi Strauss & Co. (Canada) Inc. (Levi) to operate DOCKERS® Stores in Canada. As part of this agreement, during fiscal 2000 Levi advanced $1,000,000 to the Company to finance a portion of the working capital investment and capital cost of building the Company's first four test stores. The amount advanced does not bear interest and is repayable to Levi within 60 days of the determination that the initial phase of the test is deemed a success as per specific requirements outlined in the agreement between the Company and Levi. If the initial phase is not deemed a success, then amounts advanced by Levi will not be repayable.

Effective November 1, 1998, the Company acquired all of the outstanding shares of Paul John for a cash down payment of $2,253,000. A further $737,000 purchase price adjustment was paid in the year ended January 29, 2000. In addition, there will be a further earnout amount based on sales and capital expenditures of the operation over the five years subsequent to January 30, 1999. At January 29, 2000, the Company estimated this earnout to be an amount of $2,000,000. The Company estimates that no further earnout is required to be recorded at January 27, 2001. The amount does not bear interest and is payable no later than April 15, 2004. See Note 2.

During the fiscal year ended January 27, 2001, the Company acquired various franchise stores and converted them to corporate stores. In addition to cash down payments, the Company has recorded long-term debt due to the vendors of $3,060,000 on the purchases of these franchise stores. The total amount of debt on these franchise store acquisitions that is interest bearing is $900,000. The interest-bearing debt bears interest at 6.45% and is repayable in three equal annual installments that begin June 30, 2001. The $2,160,000 non-interest-bearing debt is repayable in annual installments beginning April 1, 2001 and ending April 1, 2009.

The aggregate repayments of principal required to meet long-term debt obligations are:

| | |
|---|---|
| 2002 | $ 10,905 |
| 2003 | $ 9,986 |
| 2004 | $ 8,163 |
| 2005 | $ 5,821 |
| 2006 | $ 2,075 |
| Thereafter | $ 971 |

### 11. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has entered into operating lease agreements terminating at various dates to 2014. The Company has also entered into various operating lease agreements for store security systems and office equipment.

The minimum annual rentals, excluding tenant operating costs are:

| | |
|---|---|
| 2002 | $ 28,119 |
| 2003 | $ 27,686 |
| 2004 | $ 26,083 |
| 2005 | $ 24,676 |
| 2006 | $ 23,986 |
| Thereafter | $ 59,549 |

In addition to minimum annual rentals, contingent rentals may be payable under certain store leases on the basis of sales in excess of stipulated amounts.

Subsidiary companies of the Company are on head leases for some of the Work World franchise stores. Should those franchise stores cease operations before the end of their respective lease terms and be unable to meet their remaining lease liabilities, those subsidiary companies would have a commitment for $1,005,000 on 14 store leases prior to any subleasing to new franchisees or corporate stores.

The Company has previously signed leases for its two Mark's U.S. pilot stores in Grand Rapids, Michigan and Portland, Maine, which stores the Company decided to close in the fiscal year ended January 30, 1999. The minimum annual rental commitment under these leases is $12,000 (U.S.) net of existing subleasing agreements for each of the first three years, $nil in year four and $nil in year five. The Company has subleased both of the above locations. Should the current subleasees default on the subleases, the Company would have an annual commitment for $255,000 (U.S.) prior to any further subleasing for each of the first two years, $241,000 (U.S.) in year three, $213,000 (U.S.) in year four and $124,000 (U.S.) in year five.

The Company enters into commitments with its domestic and foreign suppliers in the ordinary course of business to obtain the merchandise required to generate the following year's planned sales. In the opinion of management, commitments made to date after having considered the Company's fiscal 2002 forecasts and inventory levels as at January 27, 2001 are consistent with prior years. At January 27, 2001, the Company had letters of credit outstanding for merchandise purchases from foreign suppliers totaling $7,722,050.

Mark's and Work World have merchandise inventory buy-back agreements in place with Canadian chartered banks under which they have agreed to buy back franchise-owned merchandise inventory should the banks foreclose on any of their respective franchisees. In 62 of the Work World buy-back agreements, there is a ceiling on the amount of inventory that has to be purchased. As at January 27, 2001, if there were foreclosures on all franchise stores, where merchandise inventory buy-back agreements are in place, the Company would be required to buy back inventory at 68% of cost which totals $13,555,000 from 87 stores.

## 12. CAPITAL STOCK

The authorized capital stock of the Company comprises 100,000,000 First Preferred Shares of no par value and an unlimited number of Common Shares of no par value.

The issued capital stock of the Company is:

| | Weighted Average Common Shares | Common Shares | Capital Stock |
|---|---|---|---|
| 2001 | 27,596,847 | 26,527,159 | $ 31,228 |
| 2000 | 27,846,950 | 27,856,967 | $ 32,715 |
| 1999 | 27,475,198 | 27,866,247 | $ 32,696 |

During the year ended January 27, 2001, 49,540 Common Shares were issued pursuant to the exercise of employee and director stock options for a total consideration of $72,000.

On April 20, 2000, the Company filed a Notice of Intention to make a Normal Course Issuer Bid for the purchase of up to 5% of its outstanding Common Shares during the period April 26, 2000 to April 25, 2001. On December 21, 2000, the Company amended its Normal Course Issuer Bid to increase the number of Common Shares it could repurchase from 1,394,000 to 1,838,000, being 10% of the public float as defined under the rules of The Toronto Stock Exchange, during the April 26, 2000 to April 25, 2001 period. Purchases of Common Shares pursuant to the Normal Course Issuer Bid were affected by a registered investment dealer, on behalf of the Company, through the facilities of The Toronto Stock Exchange. The price paid by the Company for any Common Shares purchased by it was the market price of the shares at the time of the purchase. The Company funded the purchase of Common Shares pursuant to the Normal Course Issuer Bid from its working capital. During the period April 26, 2000 to January 27, 2001, 1,379,348 Common Shares were purchased at an average price of $2.23 per Common Share (excluding commissions) for a total of $3,102,000 (including commissions) of which $1,559,000 was charged to capital stock and $1,543,000 was charged to retained earnings.

During the year ended January 29, 2000, 69,320 Common Shares were issued pursuant to the exercise of employee and director stock options for a total consideration of $111,000.

On March 3, 1999, the Company filed a Notice of Intention to make a Normal Course Issuer Bid for the purchase of up to 5% of its outstanding Common Shares during the period March 5, 1999, to March 4, 2000. Purchases of Common Shares pursuant to the Normal Course Issuer Bid were affected by a registered investment dealer, on behalf of the Company, through the facilities of The Toronto Stock Exchange. The price paid by the Company for any Common Shares purchased by it was the market price of the shares at the time of the purchase. The Company funded the purchase of Common Shares pursuant to the Normal Course Issuer Bid from its working capital. During the period March 5, 1999 to January 29, 2000, 78,600 Common Shares were purchased at an average price of $2.94 per Common Share for a total of $233,000 (including commissions) of which $92,000 was charged to capital stock and $141,000 was charged to retained earnings.

During the year ended January 30, 1999, 579,900 Common Shares were issued pursuant to the exercise of employee stock options for a total consideration of $808,000.

Also during the year ended January 30, 1999, the Preferred Shares held in the Company's U.S. subsidiary by three investors were exchanged for 999,337 Common Shares of the Company pursuant to stock exchange agreements dated January 18, 1995. Since the Company could require that such exchanges take place, these holdings have been treated as equity of the Company and as part of the Common Shares and weighted average Common Shares outstanding since January 18, 1995. Thus, this share issuance did not affect the dollar amount of capital stock or number of Common Shares or weighted average Common Shares outstanding.

The Company has a Stock Option Plan that was approved by shareholders at the June 26, 1996 Annual and Special Meeting of Shareholders. On April 6, 1999, the Board of Directors approved a resolution authorizing that the maximum number of Common Shares reserved for issuance pursuant to options granted under the Stock

Option Plan be increased to 4,175,000. This amendment to the Stock Option Plan was approved by shareholders at the June 24, 1999 Annual and Special Meeting of Shareholders.

**Incentive Stock Option Plan**

The Incentive Stock Option Plan provides that the Board of Directors of the Company may, from time to time at its discretion, grant to directors, officers, employees and consultants of the Company, or any affiliates of the Company, the option to purchase Common Shares of the Company provided that the number of Common Shares reserved for issuance under the Stock Option Plan shall not exceed 4,175,000 Common Shares less 98,860 options exercised subsequent to June 24, 1999. The plan also specifies that the maximum number of Common Shares issuable pursuant to options at any time be limited to 10% of the total Common Shares outstanding.

The price per Common Share shall not be less than the closing price of the Company's shares on The Toronto Stock Exchange on the trading day immediately preceding the date of the grant. Generally, options are exercisable for up to seven years from the date of the grant. The Board of Directors has the discretion to grant options that are exercisable for a longer or shorter period than seven years, provided that no option shall be exercisable for longer than 10 years. Unless otherwise determined by the Board at the time of grant, an option may be exercised for 20% of the shares immediately upon grant and thereafter for each completed 12-month period for the next four years, provided that an option may not be exercised as to the initial 20% until the holder has been providing services to the Company for at least one year. The Company does not provide financial assistance under the Stock Option Plan.

This table presents a summary of the status of the Company's Incentive Stock Option Plan at January 27, 2001, January 29, 2000 and January 30, 1999.

| | January 30, 1999 | | January 29, 2000 | | January 27, 2001 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 2,007,400 | $ 1.64 | 1,662,800 | $ 2.08 | 1,592,000 | $ 2.09 |
| Options granted | 235,300 | 4.25 | 75,000 | 2.85 | 550,000 | 2.15 |
| Options exercised | (579,900) | 1.44 | (69,320) | 1.59 | (49,540) | 1.45 |
| Options forfeited | — | — | (76,480) | 3.03 | (76,360) | 2.90 |
| Outstanding at end of year | 1,662,800 | $ 2.08 | 1,592,000 | $ 2.09 | 2,016,100 | $ 2.09 |
| Options exercisable at end of year | 855,100 | | 1,120,300 | | 1,388,580 | |

**Performance-Based Stock Option Plan**

The Company granted to one of its senior executives a special grant of options (the "Special Option") to purchase 250,000 Common Shares of the Company at the closing price of the Company's shares on The Toronto Stock Exchange on November 11, 1998 which was $3.85. These options were cancelled by the grantee during the fiscal year ended January 27, 2001. These Special Options were to vest based on the common stock of the Company trading on The Toronto Stock Exchange at an average for a 90-day period (using the Closing Price each day), at or above certain levels as follows: one-third or 83,333 options would have vested at $6.00; another third or 83,333 would have vested at $8.35; and the last third, or 83,334 would have vested at $10.65. The options were to expire on November 11, 2005.

The table below presents a summary of incentive-based options to purchase Common Shares granted to directors, retired directors, officers and employees outstanding as at January 27, 2001:

| Number of Common Shares | Exercise Price | Expiry Date |
|---|---|---|
| 200,000 | $ 1.65 | January 25, 2002 |
| 350,920 | $ 1.45 | March 28, 2003 |
| 68,880 | $ 1.76 | December 9, 2003 |
| 25,000 | $ 1.95 | January 29, 2004 |
| 598,500 | $ 2.38 | March 26, 2004 |
| 25,000 | $ 4.20 | November 6, 2004 |
| 192,800 | $ 4.25 | April 2, 2005 |
| 25,000 | $ 2.55 | April 2, 2006 |
| 195,000 | $ 1.75 | February 3, 2007 |
| 335,000 | $2.40 | October 26, 2007 |

At January 27, 2001, 1,388,580 of the 2,016,100 Common Share options outstanding are vested and exercisable.

The Company introduced a Shareholders' Rights Plan in 1995. The Rights Plan was subsequently confirmed by the shareholders of the Company at the Annual and Special Shareholders meeting held on June 26, 1996. At the Annual and Special Meeting of the Shareholders held June 24, 1999, the shareholders approved an amended and restated Rights Plan.

Pursuant to the Shareholders' Rights Plan Agreement, each shareholder received one Right for each outstanding Common Share they held. The Rights have no economic value and may not be exercised unless and until (a) an individual acquires the beneficial ownership of 20% or more of the outstanding Common Shares of the Company without Board approval, other than pursuant to a Permitted Bid, (b) the commencement of, or first public announcement of the intent of any person, other than the Company or any subsidiary of the Company, to commence a Take-over Bid, or (c) the date upon which a Permitted Bid ceases to be a Permitted Bid, or in any circumstances, such earlier or later date as may be determined by the Board of Directors, acting in good faith (collectively, the "Separation Time"). Without a postponement of the Separation Time by the Board of Directors, the occurrence of any of the above-mentioned events entitles all other shareholders to exercise their Rights and to purchase additional Common Shares at a 50% discount to market value.

The Rights expire upon the termination of the annual meeting of the Company in the year 2002, unless earlier terminated by the Board.

## 13. FINANCIAL INSTRUMENTS

### Interest Rate

At January 27, 2001, the Company had fixed its borrowing rate on $20,000,000 of its anticipated short-term borrowing requirements at a 7.295% all-in rate and on $14,500,000 of its anticipated short-term borrowing requirements at an all-in-rate of 6.965%.

At January 29, 2000, the Company had fixed its borrowing rate at a 7.135% all-in rate on 88.5% of its actual short-term borrowing requirements during the year ended January 27, 2001. During fiscal 2001, the Company fixed its borrowing rate on the remainder of its short-term borrowing requirements at rates ranging from 6.78% to 7.35% all-in rate. These activities caused the Company to pay $56,677 less in interest during the fiscal year ended January 27, 2001 than if the Company had not fixed its borrowing rate.

At January 30, 1999, the Company had fixed its borrowing rate at a 6.60% all-in rate on 92% of its actual short-term borrowing requirements during the year ended January 29, 2000. During fiscal 2000, the Company fixed its borrowing rate on the remainder of its short-term borrowing requirements at a 6.36% all-in rate. These activities caused the Company to pay $59,000 more in interest during the fiscal year ended January 29, 2000 than if the Company had not fixed its borrowing rate.

The mark-to-market value of the interest rate swap contracts is a $7,069 unrecorded gain at January 27, 2001 (January 29, 2000: $102,992 unrecorded loss and January 30, 1999: $22,779 unrecorded gain) based on the Company's floating rate interest cost at January 27, 2001 of 7.25% (January 29, 2000: 6.50%, January 30, 1999: 6.75%).

### Foreign Exchange

At January 27, 2001, the Company had six foreign exchange collar arrangements for committed and anticipated foreign merchandise purchases during the Company's next fiscal year ending January 26, 2002 totaling $6,680,000 (U.S.). Under the terms of the collars, the Company bears the exchange risk or benefit on foreign purchases when the Canadian dollar trades against the U.S. dollar within the ranges and time periods set out in the table below:

| Collar Exercise Date | Floor Rate | Ceiling Rate | Contract Amount in U.S. $ |
|---|---|---|---|
| February 1, 2001 | 1.4750 | 1.4910 | $ 1,000,000 |
| March 2, 2001 | 1.4724 | 1.4910 | $ 800,000 |
| April 4, 2001 | 1.4699 | 1.4910 | $ 400,000 |
| May 2, 2001 | 1.4676 | 1.4910 | $ 770,000 |
| June 5, 2001 | 1.4647 | 1.4910 | $ 1,920,000 |
| July 4, 2001 | 1.4626 | 1.4910 | $ 1,790,000 |

# Notes to Consolidated Financial Statements

At January 27, 2001, the unrealized gain on foreign exchange collars based on a January 27, 2001 exchange rate of $1.5063 was $102,204.

At January 27, 2001, the Company also had 10 foreign exchange fixed contract arrangements in place for committed and anticipated foreign merchandise purchases for the period February 1, 2001 to January 31, 2002 totaling $14,064,500 (U.S.). Under the terms of the contract arrangements, the Company has fixed its exchange risk on foreign purchases for Canadian dollar trades against the U.S. dollar at the rate and time periods set forth below:

| Time Period/Date for Exercising Contract | Fixed Rate | Contract Amount in U.S. $ |
|---|---|---|
| February 1, 2001 to February 28, 2001 | 1.45310 | $ 1,885,000 |
| March 1, 2001 to March 30, 2001 | 1.45210 | $ 1,055,000 |
| April 3, 2001 to April 27, 2001 | 1.45100 | $ 1,160,000 |
| July 4, 2001 to July 31, 2001 | 1.46666 | $ 71,000 |
| August 1, 2001 to August 31, 2001 | 1.46559 | $ 2,245,000 |
| September 4, 2001 to September 28, 2001 | 1.46452 | $ 2,096,000 |
| October 1, 2001 to October 31, 2001 | 1.46378 | $ 1,475,000 |
| November 1, 2001 to November 30, 2001 | 1.50890 | $ 1,795,000 |
| December 1, 2001 to December 31, 2001 | 1.50850 | $ 1,177,000 |
| January 3, 2002 to January 31, 2002 | 1.50810 | $ 1,105,500 |

At January 27, 2001, the unrealized gain on the foreign exchange fixed contract arrangements for U.S. dollars based on a January 27, 2001 exchange rate of $1.5063 was $456,866.

At January 29, 2000, the Company had nine foreign exchange collar arrangements totaling $9,748,000 (U.S.) and 19 fixed contract arrangements totaling $25,021,000 (U.S.) in place for committed and anticipated foreign merchandise purchases for the fiscal year ended January 27, 2001. During the fiscal year ended January 27, 2001, the Company also purchased and exercised $2,135,000 (U.S.) in fixed foreign exchange contracts to settle foreign exchange purchases. Under the terms of the collar arrangements, the Company bore the exchange risk or benefit on foreign merchandise purchases when the Canadian dollar traded against the U.S. dollar within the range of the average floor amount of $1.4560 ($14,193,088 Cdn., the floor) and the average ceiling amount of $1.4714 ($14,343,207 Cdn., the ceiling). Under the terms of the foreign exchange fixed contracts, the Company bore the exchange risk or benefit when the Canadian dollar traded against the U.S. dollar outside of an average rate of $1.4669 ($36,703,304 Cdn.). The fixed U.S. dollar contracts purchased and exercised during the year were at an average rate of $1.4835 ($3,167,273 Cdn.). As at January 29, 2000, based on a closing U.S. dollar exchange rate of $1.4423 (Cdn.) the unrealized net losses from U.S. dollar collars were $133,137 and the unrealized net losses from U.S. dollar fixed contracts were $615,533. During the fiscal year ended January 27, 2001, the various arrangements for foreign merchandise purchases cost the Company $479,414 less than if the arrangements had not been entered into.

At January 30, 1999, the Company had 17 foreign exchange collar arrangements totaling $27,442,002 (U.S.) and three fixed contract arrangements totaling 189,000,000$ (Portuguese Escudos) in place for committed and anticipated foreign merchandise purchases for the fiscal year ended January 29, 2000. During the fiscal year ended January 29, 2000, the Company also purchased and exercised $2,630,000 (U.S.) in fixed foreign exchange contracts to settle foreign exchange purchases. Under the terms of the collar arrangements, the Company bore the exchange risk or benefit on foreign merchandise purchases when the Canadian dollar traded against the U.S. dollar within the range of the average floor amount of $1.5053 ($41,308,446 Cdn., the floor) and the average ceiling amount of $1.5320 ($42,041,147 Cdn., the ceiling). Under the terms of the foreign exchange fixed contracts, the Company bore the exchange risk or benefit when the Canadian dollar traded against the Portuguese Escudo outside of an average rate of 0.008816 ($1,666,224 Cdn.). The fixed U.S. dollar contracts purchased and exercised during the year were at an average rate of 1.4765 ($3,883,195 Cdn.). As at January 30, 1999, based on a closing U.S. dollar exchange rate of $1.5074 (Cdn.) and Portuguese Escudo exchange rate of $.00885 (Cdn.), the unrealized net losses from U.S. dollar collars were $79,825 and the unrealized net gains on Portuguese Escudo fixed contracts were $6,458. During the fiscal year ended January 29, 2000, the various arrangements for foreign merchandise purchases cost the Company $975,455 more than if the arrangements had not been entered into.

### 14. CORPORATE AND FRANCHISE SALES

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Company-owned store sales | $ 283,401 | $ 314,547 | $ 363,870 |
| Mark's franchisee-owned store sales | 61,801 | 63,340 | 65,754 |
| Work World franchisee-owned store sales | 72,266 | 59,783 | 58,355 |
| | $ 417,468 | $ 437,670 | $ 487,979 |

Total corporate and franchise sales have been shown as a separate item at the top of the Consolidated Statements of Earnings and Retained Earnings to illustrate the size of the total business. Only the Company-owned store sales and the franchise royalties earned on franchise-owned store sales, initial franchise fees earned on the sale of franchise stores, other sundry income from franchise operations and Company costs related to franchise operations form part of the Consolidated Statements of Earnings and Retained Earnings.

### 15. FRANCHISE ROYALTIES AND OTHER

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Royalties from Mark's franchise stores | $ 3,965 | $ 4,075 | $ 4,129 |
| Sundry income from Mark's franchise operations | 20 | — | — |
| Royalties from Work World franchise stores | 2,863 | 2,470 | 2,404 |
| Fees from the sale of Work World franchises | 15 | 11 | (1) |
| Sundry income from Work World franchise operations | 153 | 84 | 26 |
| | $ 7,016 | $ 6,640 | $ 6,558 |
| Number of franchise stores at year end | | | |
| Mark's | 29 | 29 | 25 |
| Work World | 105 | 102 | 90 |
| | 134 | 131 | 115 |

### 16. U.S. OPERATIONS

The Company decided to end its U.S. test in the fiscal year ended January 30, 1999. The impact of the conclusion of the U.S. test was a $2,961,000 additional charge to pre-tax earnings in fiscal 1999, or 6 cents per share after tax, and the elimination of operating losses from this test and reduced current assets going forward. Expenses incurred in fiscal 2000 relating to the closure of the Company's U.S. test have been charged against this provision. The Company has $306,000 of the provision remaining at January 27, 2001, for additional costs expected to be incurred up to January 28, 2006.

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Sales, excluding inter group | $ 1,665 | $ — | $ — |
| Deduct: | | | |
| Cost of sales | 1,134 | — | — |
| Front-line expenses | 1,198 | — | — |
| Back-line expenses | 427 | — | — |
| Operating loss before income taxes | (1,094) | — | — |
| Provisions for closure costs | 2,961 | — | — |
| Loss before income taxes | (4,055) | — | — |
| Income tax benefit | (1,780) | — | — |
| Net loss | $ (2,275) | $ — | $ — |
| Net loss per share | (8) ¢ | — ¢ | — ¢ |
| Current assets | $ 900 | $ — | $ — |
| Capital and other assets | — | — | — |
| Total assets | $ 900 | $ — | $ — |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 17. INCOME TAXES

The provision for income taxes varies from the amount computed by applying the combined federal and provincial income tax rates as follows:

| | | 1999 | | 2000 | | 2001 |
|---|---|---|---|---|---|---|
| Federal and provincial income taxes | 43.9% | $ 4,966 | 44.4% | $ 5,632 | 44.0% | $ 7,513 |
| Increase resulting from | | | | | | |
| Other | 2.5% | 278 | 2.3% | 291 | 4.9% | 833 |
| Provision for income taxes | 46.4% | $ 5,244 | 46.7% | $ 5,923 | 48.9% | $ 8,346 |

Future income taxes result from the effect of transactions that are recognized in different periods for financial and tax-reporting purposes. See Note 1N. The major components of the Company's future tax assets and liabilities are:

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Other assets | $ (851) | $ (448) | $ (480) |
| Capital assets | 3,750 | 2,631 | 2,983 |
| Goodwill | 27 | (85) | (431) |
| Deferred gains | 487 | 928 | 925 |
| Future income taxes | $ 3,413 | $ 3,026 | $ 2,997 |

Mark's Work Wearhouse Ltd. has an August tax year end. Mark's Work Wearhouse Inc. (the Company's inactive U.S. subsidiary) has a January tax year end. The Company has $12,067,000 of goodwill remaining on its balance sheet that is not deductible for tax purposes. Losses carried forward for tax purposes are:

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Capital losses – Mark's Work Wearhouse Ltd. | $ 611 | $ 611 | $ 611 |
| Non-capital loss – Mark's Work Wearhouse Inc. | $ 1,439 | $ 1,439 | $ 1,439 |

## 18. SEGMENTED INFORMATION

The Company is a specialty retailer of primarily men's and some ladies' apparel and footwear operating in Canada and operated two Mark's pilot stores in the U.S. until January 30, 1999. See Note 16. Financial information by operating group is:

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| **Sales, Earnings and Depreciation and Amortization** | | | |
| Corporate and franchise sales | | | |
| Mark's and Corporate Services Canada | $ 329,023 | $ 345,810 | $ 385,677 |
| Work World Canada | 86,866 | 89,201 | 94,532 |
| DOCKERS® Stores Canada | — | 2,666 | 7,770 |
| Mark's United States | 1,865 | — | — |
| Inter group | (286) | (7) | — |
| | $ 417,468 | $ 437,670 | $ 487,979 |
| Earnings (loss) before interest, taxes, depreciation and amortization | | | |
| Mark's and Corporate Services Canada | $ 26,104 | $ 28,378 | $ 32,918 |
| Work World Canada | 510 | 43 | 1,088 |
| DOCKERS® Stores Canada | — | (2,116) | (2,666) |
| Mark's United States | (915) | — | — |
| Mark's United States provision for closure costs | (2,961) | — | — |
| | $ 22,738 | $ 26,305 | $ 31,340 |
| Depreciation and amortization excluding goodwill amortization (front-line and back-line) | | | |
| Mark's and Corporate Services Canada | $ 7,612 | $ 8,562 | $ 8,510 |
| Work World Canada | 122 | 858 | 1,146 |
| DOCKERS® Stores Canada | — | 183 | 632 |
| Mark's United States | 327 | — | — |
| | $ 8,061 | $ 9,603 | $ 10,288 |
| Goodwill amortization | | | |
| Mark's and Corporate Services Canada | $ 277 | $ 289 | $ 372 |
| Work World Canada | 39 | 86 | 176 |
| | $ 316 | $ 375 | $ 548 |
| **Cash flows related to Capital items** | | | |
| Capital Expenditures | | | |
| Mark's and Corporate Services Canada | $ (1,816) | $ (127) | $ (1,383) |
| Work World Canada | (812) | (277) | (383) |
| DOCKERS® Stores Canada | — | (1,511) | (719) |
| Mark's United States | (555) | — | — |
| | $ (3,183) | $ (1,915) | $ (2,485) |
| Acquisitions of subsidiaries | | | |
| Work World Canada | $ (2,196) | $ (737) | $ — |
| Purchases of franchise stores | | | |
| Mark's and Corporate Services Canada | $ (1,814) | $ — | $ (1,807) |
| Work World Canada | (2,506) | (50) | $ (1,247) |
| | $ (4,320) | $ (50) | $ (3,054) |
| **Financial Position** | | | |
| Total assets | | | |
| Mark's and Corporate Services Canada | $ 119,281 | $ 126,441 | $ 142,943 |
| Goodwill on acquisition of Work World (net of accumulated amortization) | 6,690 | 6,479 | 6,268 |
| Work World Canada | 19,907 | 19,530 | 23,642 |
| Goodwill on acquisition of Paul John (net of accumulated amortization) | 853 | 3,540 | 3,405 |
| DOCKERS® Stores Canada | — | 5,195 | 6,549 |
| Mark's United States | 900 | — | — |
| Inter group | (14,639) | (18,101) | (25,747) |
| | $ 132,992 | $ 143,084 | $ 157,060 |

### 19. SUBSEQUENT EVENT

Effective February 19, 2001, the Company outsourced its distribution activities to a third-party logistics-service provider for a term of five years. The annual costs of the service for each year of the contract are determined through an annually approved budget process. Exclusive of the amortization of start-up costs and one-time transition costs, these costs are budgeted at $2,500,000 for the Company's fiscal year ending January 26, 2002.

### 20. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| **52 weeks ended January 27, 2001** | | | | | |
| Corporate store sales | $ 64,568 | $ 74,651 | $ 88,077 | $ 136,574 | $ 363,870 |
| Gross margin percentage | 43.1% | 39.6% | 41.5% | 40.7% | 41.1% |
| Earnings (loss) before income taxes and goodwill amortization | $ (1,045) | $ (809) | $ 2,370 | $ 16,558 | $ 17,074 |
| Net earnings (loss) per Common Share before goodwill amortization | (2)¢ | (2)¢ | 6¢ | 30¢ | 32¢ |
| Net earnings (loss) per Common Share | (3)¢ | (2)¢ | 5¢ | 30¢ | 30¢ |
| Corporate stores at end of quarter | 182 | 187 | 191 | 194 | 194 |
| **52 weeks ended January 29, 2000** | | | | | |
| Corporate store sales | $ 57,235 | $ 62,736 | $ 77,146 | $ 117,430 | $ 314,547 |
| Gross margin percentage | 41.7% | 40.1% | 41.2% | 40.0% | 40.6% |
| Earnings (loss) before income taxes and goodwill amortization | $ (1,853) | $ (554) | $ 1,884 | $ 13,208 | $ 12,685 |
| Net earnings (loss) per Common Share before goodwill amortization | (4)¢ | (1)¢ | 3¢ | 26¢ | 24¢ |
| Net earnings (loss) per Common Share | (4)¢ | (2)¢ | 3¢ | 26¢ | 23¢ |
| Corporate stores at end of quarter | 166 | 167 | 173 | 177 | 177 |
| **52 weeks ended January 30, 1999** | | | | | |
| Corporate store sales | $ 48,419 | $ 51,686 | $ 67,336 | $ 115,960 | $ 283,401 |
| Gross margin percentage | 41.4% | 39.4% | 41.6% | 39.5% | 40.3% |
| Earnings (loss) before income taxes and goodwill amortization | $ (1,599) | $ (1,936) | $ 2,105 | $ 12,742 | $ 11,312 |
| Net earnings (loss) per Common Share before goodwill amortization | (4)¢ | (4)¢ | 4¢ | 26¢ | 22¢ |
| Net earnings (loss) per Common Share | (4)¢ | (4)¢ | 4¢ | 25¢ | 21¢ |
| Corporate stores at end of quarter | 123 | 126 | 160 | 165 | 165 |

# Glossary of Terms

The following glossary defines terms used throughout this report.

**Back-line Expenses:** All expenses associated with supporting stores but not directly related to face-to-face customer contact. These expenses include non-store personnel administrative and other expenses, distribution centre costs, computer costs (net of recoveries from the front-line), software development and maintenance costs, interest long-term, franchise bad debts and non-store occupancy, depreciation and amortization.

**Base Rent:** Rent payable to the landlord prior to paying for Common Area Maintenance (CAM) and property taxes.

**Basis Point:** A basis point corresponds to 1/100 of a percentage point.

**Blend:** The percentage that results from dividing the sales of a category by the total Company's corporate store sales.

**Business Objective:** A measurable target set for each management employee upon which job evaluation and bonuses are based.

**Business-to-Business Sales:** From the Company's perspective, these sales are apparel and footwear sales, sometimes with embroidery work added, for the account of a corporate customer either directly to the corporate customer or to the corporate customer's employees.

**Business-to-Consumer Electronic Sales:** See e-Commerce sales.

**CAM:** The Common Area Maintenance cost component of the total rent payable to a landlord.

**Capex:** A short form term to describe capital expenditures.

**Capital Expenditures:** Costs recognized as a portion of long-term assets. These costs relate to the purchase of leasehold improvements, furniture, fixtures, equipment and capital lease purchases.

**Captive Label:** Labels owned by Mark's or Work World but not associated with the name of the store. These include WindRiver, Denver Hayes, Dakota, Canyon Creek, etc.

**Conservative Forecast:** The lower end of the Company's published forecast range as depicted on page 19, and based upon the assumptions on page 18.

**Corporate Services:** The back-line services group that provides the operating divisions with the appropriate level of high-quality, standardized support in the areas of customer service, human resources, warehouse distribution, store design, real estate, systems, finance and accounting and CEO leadership, while ensuring that the divisions are adhering to the Company's corporate value system.

**Corporate Store Strategy, Work World Division:** A strategy whereby new stores in the Work World Division are opened as corporate stores rather than franchise stores and, as opportunities present themselves, franchise stores are purchased and converted to corporate stores. The Company believes this is the preferred strategy in its Work World Division as the Company believes that, over time, its corporate stores business model will deliver better financial returns than the franchise store model.

**CPFS:** Cash flow per share calculated by dividing the Company's funds provided by operations by the weighted average shares outstanding during the fiscal year.

**Destination Store:** A store that is large enough and dominant enough in its retail location to draw its own customer traffic and is not dependent upon its neighbours. A destination store is typically free-standing, but can be located in a strip mall or power centre. The Company's Mark's Division operates destination stores.

**Direct Import Purchases:** The purchase of merchandise for resale directly from offshore factories without using the services of a Canadian importer.

**DOCKERS® or DOCKERS® Stores:** The Company's DOCKERS® Stores Division operation excluding Mark's, Work World and Corporate Services.

**EBIT:** Earnings before interest and income taxes.

**EBITDA:** Earnings before interest, income taxes and depreciation and amortization: more specifically, sales revenues available after all merchandise costs, front-line and back-line expenses, except for interest, depreciation and amortization, goodwill amortization and income taxes are subtracted, plus franchise royalties.

**e-Commerce Sales:** From the Company's perspective, these sales are apparel and footwear sales to customers executed electronically through the Internet and fulfilled through the Company's Mark's Division coast-to-coast store network. The Company sometimes also refers to these sales at Business-to-Consumer Electronic Sales.

**EPS:** Earnings per share. See Note 1K to the Consolidated Financial Statements for the method of calculation.

**Franchise Operations:** Mark's and Work World franchise operating results consist of franchise royalties, initial franchise fees and other sundry income from franchisees minus bad debt provisions on franchise receivables. Deducted from that amount is an estimate of the franchise operation's share of selected divisional back-line expenses and, in the case of the Mark's Division franchises, selected Corporate Services back-line costs, based on each division's franchise sales as a percentage of each division's total system sales applied to those selected back-line costs.
In addition, the Mark's franchise operations are charged with the front-line cost of two district managers and the Work World franchise operations are charged with acquisition financing costs and goodwill amortization.

**Front-line Contribution:** Sales revenues available after all merchandise costs and front-line expenses are subtracted.

**Front-line Expenses:** Expenses incurred from having direct contact with customers, including store personnel, advertising, occupancy, store variable and store other expenses. Depreciation and amortization of store assets and short-term interest costs are also included.

**Funded Debt:** The aggregate of all interest-bearing and non-interest bearing contracted debt on the Company's balance sheet (currently bank indebtedness, bank term debt, capital lease debt, leasehold fixtures and equipment loan for the DOCKERS® Stores test, estimated future earnout payable on the Paul John acquisition and long-term debt payable on acquisitions of individual franchise stores).

**Gross Margin:** Sales revenues available after all merchandise costs.

**Gross Margin Return on Investment (GMROI):** A financial ratio comparing a division's or the Company's gross margin dollars to the division's or the Company's average inventory at cost. This ratio provides an indication of the division's or the Company's inventory efficiency.

**Gross Margin Return on Space:** A financial ratio comparing a division's or the Company's gross margin dollars to a division's or to the Company's average square feet of selling. This ratio provides an indication of the division's or the Company's space efficiency.

# Glossary of Terms

**Indirect Import Purchases:** The purchase of merchandise for resale from Canadian importers who source the merchandise offshore.

**Inventory Turnover:** A measure of the level of investment in inventory by a division or the Company, calculated by averaging inventory at retail on hand at the start of the period and at each month end during the period for a division or the Company and dividing that amount into the sales for the period of a division or the Company.

**Key Results:** One to three challenging, measurable business targets set by individuals that cause hearts to race and palms to sweat.

**L'Équipeur:** Mark's store name in the province of Quebec, Canada.

**Macro:** A term used to describe "big picture" or "global" factors.

**Mark's or Mark's Division:** Mark's Work Wearhouse and L'Équipeur divisional operations excluding Work World, DOCKERS® and Corporate Services.

**MVP:** Most valuable employee or group of employees.

**Net Front-line Contribution:** Sales revenues available after all merchandise costs and front-line expenses are subtracted and the franchise royalties and other are added.

**Net Earnings before Goodwill Amortization:** Sales revenues available after all merchandise costs and front-line and back-line expenses and non-recurring items and income taxes are subtracted and franchise royalties and other are added, but before goodwill amortization is subtracted.

**Occupancy:** Base rent plus Common Area Maintenance (CAM) plus property taxes plus business taxes and licenses.

**"On Concept" Store:** A Mark's store that is 8,000 to 15,000 sq. ft. in size; is a destination store; occupies a dominant position in its retail location (preferably free-standing but can be in a strip mall or power centre); has good parking, signing and access; has properly implemented all store anchors; and leasehold improvements, fixtures, lighting and cleanliness meet current corporate standards.

**Optimistic Forecast:** The upper end of the Company's published forecast range as depicted on page 19 and based upon the assumptions on page 18.

**Performance Contract:** A single page document signed by an employee and management that contains the individual's Business Objective and Key Results.

**Post-audit:** A detailed review of the return on investment and return on capital employed provided by each new, relocated or refurbished store and by purchased franchise stores against pre-set corporate hurdle rates to determine whether the project was a financial success or not.

**Pre-audit:** Based on history for similar stores, a projection of the return on investment and return on capital employed expected from each new, relocated or refurbished store or purchased franchise store to determine whether the proposed project is expected to meet pre-set corporate hurdle rates or not.

**Private Label:** A label that uses the store's name, e.g., Mark's jeans or Work World jeans or DOCKERS® khakis and thus brings an instant association between product and store.

**Purchase Markup:** The difference between the selling price and landed cost of an item purchased for resale in the Company's stores.

**Rent, Other Operating Leases, Computer Services, Distribution Activities and Interest on Long-term (including capital leases) Debt Coverage:** A financial ratio comparing the Company's fixed commitments under lease, and long-term agreements and interest-bearing and non interest-bearing contracted debt obligations to the earnings available to meet them. This ratio is intended to provide a better measure of the inherent risk in the business than is provided by the total liabilities-to-equity ratio, due to the large rent component and other outsourced activities in a retail company's risk profile.

**Rolling Average Funded Debt-to-Equity Ratio:** A financial ratio comparing the Company's average funded debt over the most recent 12 months to the Company's average equity over that same most recent 12 months.

**Sales Per Resident:** Our measure of market penetration calculated by dividing sales from a division's or the Company's total corporate and franchise stores within a region or the entire country by the population of that region, or the entire country.

**Same-store Sales Increase:** A calculation of the sales increase on a comparative basis, derived by comparing sales of two consecutive years, exclusive of all stores opened or closed within that two-year period.

**Seasons:** The Company breaks the year down into two seasons for operating purposes: Spring – February through July; Fall – August through January.

**Shrink:** The difference between opening inventory and closing year-end inventory after accounting for all purchase, costs of goods sold, markdowns, customer adjustments and other discounts.

**Strategic Plan:** The Company's most recent five-year Plan covering the fiscal years ending January 2002, 2003, 2004, 2005 and 2006.

**Total Liabilities:** The aggregate of all liabilities, current and long-term, on the Company's balance sheet, including deferred gains.

**Total Liabilities-to-Equity Ratio:** A financial ratio comparing the Company's total liabilities to shareholders' equity. This ratio provides creditors with some idea of the Company's ability to withstand losses without impairing the interests of creditors.

**Total Sales or Total System Sales:** Combined sales from Mark's corporate stores, Mark's franchise stores, Work World's corporate stores, Work World's franchise stores and DOCKERS® corporate stores, and in years prior to fiscal 2000, Mark's U.S. pilot stores.

**Trendex North America or Trendex:** This organization provides statistical data on the Canadian apparel and footwear markets. The Company subscribes to this service.

**Work World:** Work World Divisional operations excluding Mark's Work Wearhouse, DOCKERS® Stores and Corporate Services.

# Corporate Governance

Mark's Work Wearhouse Ltd. is an Alberta corporation. The Alberta Business Corporations Act makes it clear that it is the responsibility of the Board of Directors to manage the business and affairs of the Company. The Board discharges this responsibility by selecting and holding accountable management to whom the Board delegates operations. Business and affairs, and operations are to be managed in the best interests of the shareholders toward the goal of maximizing the long-term value of the Company to shareholders.

The key governance issues facing the Company's Board relate to seeking the appropriate balance between structures and mechanisms that facilitate management's capacity to manage the business and those that facilitate appropriate stewardship by the Board. The Board recognizes the need for, and encourages management led by the President and Chief Executive Officer, to make clear and appropriate executive decisions and to be strong leaders. The need is not to rein in management but rather to equip the Board with the capacity to exercise its responsibilities, to be good critics as well as supporters and constructive skeptics. A healthy, friendly tension is appropriate.

During fiscal 2001 (January 30, 2000 to January 27, 2001), the Company held five Board meetings in person and one telephone meeting. During fiscal 2001, six directors attended all six meetings and two directors attended five of the six meetings.

During fiscal 2001, two Compensation Committee meetings, three Audit committee meetings and four Governance Committee meetings were held. All respective committee members attended all their respective committee meetings, except for one Audit Committee member who was absent for one Audit Committee meeting.

The following analysis uses definitions contained in the Toronto Stock Exchange Report on Corporate Governance ("Governance Guidelines") and is numbered in response to the specific Governance Guidelines with an indication of the Company's alignment. This analysis was adopted by the Board of Directors of the Company on April 26, 2001.

| TSE CORPORATE GOVERNANCE GUIDELINES | DOES MARK'S ALIGN? | COMMENTS |
|---|---|---|
| 1. Board should explicitly assume responsibility for stewardship of the corporation and specifically for:<br>a) Adoption of a strategic planning process; | Yes | The Board reviews and approves management-developed strategic planning methodology and the Strategic Plan. The Board delegates to management the responsibility for tabling with the Board, a draft Strategic Plan. The Board's input is incorporated by management and, following an iterative process, the Strategic Plan is adopted by the Board at a subsequent meeting. The Board uses the Strategic Plan as a tool to measure the Company's progress. |
| b) Identification of principal risks and implementation of appropriate risk management systems; | Yes | The principal risks of the Company's business are outlined in the annual report under Management's Discussion and Analysis of Risk and Uncertainties. The Board and particularly its Audit Committee, review these risks, set policy for the management of these risks, and receive reports from the Company's management on how these risks are being assessed and managed. |
| c) Succession planning, including appointing, training and monitoring senior management; | Yes | The Board takes responsibility for appointing and monitoring senior management. The Board regularly has senior management explain its succession plans for the Company's managers and their own positions. The Board encourages management to participate in professional and personal development activities, courses and programs, and supports management's commitment to the training and development of all permanent employees. An amount is allocated in the Company's budgets each year for this. |
| d) Communications policy; and | Yes | The Board has instructed senior management to develop a clearly articulated policy for effective two-way communications with shareholders, employees, suppliers, other stakeholders and the public in general, including the media. The Board recognizes this to be, except in rare circumstances, solely the province of management. The Board believes that the quality of the Company's communication with outsiders is an element to be considered in evaluating management. |
| e) Integrity of internal control and management information systems. | Yes | Directly and through its Audit Committee, the Board assesses the integrity of the Company's internal control and management information systems. The Audit Committee meets with senior management and the independent auditors twice annually to discuss and review these matters, and then reports its findings to the Board. |
| 2. Majority of Directors should be "unrelated" (free from conflicting interest). | Yes | In fiscal 2001, the Board consisted of eight members: six unrelated directors and two members of management. The directors to be proposed by the Board to the shareholders for election at the June 13, 2001 annual meeting are the eight existing directors, of whom two are members of management. The Board intends to maintain a significant proportion of independent unrelated directors.<br>The Company does not have a "significant shareholder" as defined by the Governance Guidelines as a shareholder with the ability to exercise a majority of votes for the election of directors. |

# Corporate Governance

| TSE CORPORATE GOVERNANCE GUIDELINES | DOES MARK'S ALIGN? | COMMENTS |
|---|---|---|
| 3. Disclose for each Director whether the Director is related and how that conclusion was reached. | Yes | The two management directors are related to the Company. The principal occupation/employment of each of the other directors is set out in the annual report under the heading "Directors". The Board has considered the relationship of each outside director to the Company and has concluded that none are related. |
| 4. a) Appoint a Committee responsible for proposing new nominees for appointment/ assessment of Directors; and | Yes | The Board has constituted a Governance Committee that recommends nominees to the Board, reflecting the Board's expertise and needs and being mindful of potential conflicts of interest. |
| b) Composed exclusively of outside (non-management) Directors, a majority of whom are unrelated. | Yes | The Governance Committee consists of four unrelated directors. |
| 5. Implement a process for assessing the effectiveness of the Board, its Committees and individual Directors. | Yes | The Governance Committee is responsible for the continuing assessment of the Board as a whole and the Audit, Compensation and Governance Committees.<br>The Governance Committee, in its March 22, 2001 report to the Board, assessed the Board, Audit, Compensation, and Governance Committees as effective in the discharge of their duties, including statutory fiduciary duties.<br>The Governance Committee also assessed that each of the returning nominees for director ably discharges their roles and responsibilities as a director and adds value to the governance of the Company. |
| 6. Provide orientation and education programs for new Directors. | Yes | The Company has an orientation package for new Board members. |
| 7. Consider size of Board with a view to improving effectiveness. | Yes | The Governance Committee reports periodically on the impact of size upon the effectiveness of the Board, ensuring that the Board brings together the right mix of skills, backgrounds, ages and attitudes.<br>In its March 22, 2001 report to the Board, the Governance Committee concluded that the number of directors in the range as presently constituted is appropriate for a company the size and complexity of Mark's Work Wearhouse. |
| 8. Review the adequacy and form of compensation of Directors in light of risks and responsibilities. | Yes | As directed by the Board, the Compensation Committee has used independent compensation studies in assessing the level of senior executive compensation.<br>In the fall of 2000, the Governance and Compensation Committees jointly undertook to review the remuneration of the directors in order to attract and retain talented directors. In this undertaking, the Committees reviewed reports by specialists on director compensation in Canada, including benchmarking materials on public companies of various sectors and sizes. Based on this review, the Committees recommended that stock-based compensation in addition to annual retainers and meeting fees form a portion of the directors' remuneration. The recommendations were adopted by the Board on October 26, 2000. |
| 9. Board Committees should generally be composed of outside Directors, a majority of whom are unrelated. | Yes | The Board has three committees, the Governance Committee, the Compensation Committee and the Audit Committee. All three are made up of four outside, unrelated Directors. |
| 10. Appoint a Committee responsible for approach to corporate governance issues and the guidelines. | Yes | The Governance Committee is responsible for developing and monitoring the Company's approach to governance issues and for responding to The Toronto Stock Exchange governance guidelines. |
| 11. a) Define limits to management's responsibilities by developing mandates for the Board and the Chief Executive Officer; and | Yes | The Governance Committee completed position descriptions for the Board and the President and Chief Executive Officer that have been approved by the Board. These position descriptions are reviewed regularly by the Governance Committee. During the past fiscal year, the Compensation Committee reviewed the compensation and performance of the President and Chief Executive Officer, and Chief Financial Officer.<br>In its February 3, 2000 report to the Board, based on a report received from a national compensation and benefits firm, the Compensation Committee recommended and the Board approved a retirement compensation plan for the current President and Chief Executive Officer of Mark's Work Wearhouse Ltd.<br>In its March 22, 2001 report to the Board, the Compensation Committee addressed and the Board approved senior executive compensation. |
| b) The Board should approve the Chief Executive Officer's corporate objectives. | Yes | The Board annually approves the Business Objective and Key Results for which the President and Chief Executive Officer is responsible and accountable. The Business Objective and Key Results for fiscal 2002 and a review of the results for fiscal 2001 are published in the annual report under Senior Management Performance. |

| TSE CORPORATE GOVERNANCE GUIDELINES | DOES MARK'S ALIGN? | COMMENTS |
|---|---|---|
| 12. Establish procedures to enable the Board to function independently of management. | Yes | In December 1995, the Board decided to appoint an outside independent director as Chairman of the Board based on the position description for a non-management Chairman completed by the Governance Committee. The non-executive Chairman's responsibilities include ensuring that adequate and proper information is made available to the Board and maintaining good lines of communication between the Board and senior management.<br>The Governance Committee also recommended and the Board approved that adequate time be allocated in the Board agenda at each of the March and October Board meetings for the outside directors to meet without management present. These sessions have as agenda items at least the following: (i) evaluation of senior management; (ii) assessment of overall corporate progress and progress against the Strategic Plan; (iii) assessment of overall management capability, strength and depth; (iv) succession planning; (v) Board governance matters; and (vi) issues on the minds of outside directors. The Board has met on several occasions this past fiscal year without management present. |
| 13. a) The Audit Committee should have a specifically-defined mandate; and | Yes | The roles and responsibilities of the Audit Committee have been defined to include responsibility for overseeing management reporting on internal control and management information systems, compliance with the Company's Code of Conduct, and the normal statutory responsibilities.<br>As a result of recent requirements by regulatory authorities, at its March 22, 2001 Board meeting, the Board authorized the Audit Committee to review and approve the Company's quarterly financial statements and quarterly management discussion and analysis beginning with the quarter ending April 28, 2001.<br>The Audit Committee has direct communication channels with the Company's independent auditors and regularly meets with the auditors without management present.<br>The Company has no formal internal audit process at this time, a policy that is reviewed periodically by the Audit Committee and with which the Audit Committee and the independent auditors concur.<br>The Audit Committee meets regularly with management and the external auditors to review the annual audited financial statements of the Company, the auditors' report thereon and Management's Discussion and Analysis included in the Company's annual report. The Audit Committee then recommends to the Board the approval of the annual audited financial statements.<br>Each year the Audit Committee receives regular normal course updates from the external auditors on the Company's internal controls and monitors management's implementation of the recommendations that the Audit Committee, management and the external auditors agree need to be acted upon.<br>The Audit Committee annually reviews the Information Circular and the Annual Information Form and the "Post Audit" analysis of the Company's capital projects.<br>The Audit Committee meets regularly with management to discuss and approve any new accounting or financial policies, including foreign currency and interest rate hedging policies.<br>The Audit Committee annually reviews all material provisions requiring management's judgment and best estimates. |
| b) All members should be outside Directors. | Yes | The Audit Committee consists of four outside, unrelated directors. |
| 14. Implement a system to enable individual Directors to engage outside advisors, at the Corporation's expense. | Yes | The Governance Committee is responsible for approving the engagement by individual directors of outside advisors at the expense of the Company in appropriate circumstances. Any such engagement is subject to the approval of the Governance Committee and requires senior management to be informed of any such action. |

# Eleven-Year Financial Review (unaudited)

| (amounts in thousands of dollars except where indicated) | Jan. 2001 | Jan. 2000 | Jan. 1999 | Jan. 1998 |
|---|---|---|---|---|
| **STATEMENTS OF EARNINGS** | | | | |
| Total sales | 487,979 | 437,670 | 417,468 | 402,207 |
| Mark's franchise store retail sales | 65,754 | 63,340 | 61,801 | 62,696 |
| Work World franchise store retail sales* | 58,355 | 59,783 | 72,266 | 87,495 |
| Mark's corporate store retail sales*** | 319,923 | 282,463 | 267,136 | 249,339 |
| Work World corporate store retail sales* | 36,177 | 29,418 | 14,600 | 1,002 |
| DOCKERS® corporate store retail sales | 7,770 | 2,666 | N/A | N/A |
| Mark's U.S. corporate store retail sales*** | N/A | N/A | 1,665 | 1,675 |
| Gross Margin | 149,509 | 127,824 | 114,238 | 102,093 |
| Percent | 41.09 % | 40.64 % | 40.31 % | 40.51 % |
| Franchise royalties and other | 6,558 | 6,640 | 7,016 | 7,604 |
| Operating expenses | 124,727 | 108,159 | 95,555 | 87,866 |
| Interest expense | 3,978 | 4,017 | 3,365 | 2,332 |
| Depreciation and amortization including goodwill amortization | 10,836 | 9,978 | 8,377 | 7,095 |
| Operating earnings (loss) before U.S. closure provision, discontinued operations and income taxes | 16,526 | 12,310 | 13,957 | 12,404 |
| Provision for closure of U.S. pilot stores | N/A | N/A | 2,961 | N/A |
| Earnings (loss) from discontinued operations | N/A | N/A | N/A | N/A |
| Income taxes (recovery) | 8,346 | 5,923 | 5,244 | 5,853 |
| Net earnings (loss) | 8,180 | 6,387 | 5,752 | 6,551 |
| **EBITDA** | 31,340 | 26,305 | 22,738 | 21,831 |
| **EBIT** | 20,504 | 16,327 | 14,361 | 14,736 |
| **STATEMENTS OF CASH FLOWS**** | | | | |
| Funds flow (deficiency) from operations | 18,881 | 16,876 | 15,815 | 13,609 |
| Change in non-cash working capital | 2,259 | (6,577) | (8,910) | (19,610) |
| Investing | (5,807) | (4,142) | (10,579) | (1,885) |
| Financing | (10,114) | (7,093) | 6,035 | (3,514) |
| Net cash and cash equivalents generated (deployed) | 5,219 | (936) | 2,361 | (11,400) |
| **FINANCIAL POSITION** | | | | |
| Current assets | 110,387 | 101,475 | 96,360 | 75,810 |
| Current liabilities | 63,222 | 57,296 | 56,525 | 44,397 |
| Working capital | 47,165 | 44,179 | 39,835 | 31,413 |
| Capital assets (net) | 28,148 | 25,893 | 23,531 | 20,072 |
| Goodwill | 14,472 | 11,076 | 8,713 | 7,195 |
| Total assets***** | 157,060 | 143,084 | 132,992 | 105,617 |
| Long-term debt excluding current portion | 27,016 | 23,952 | 22,052 | 13,414 |
| Total debt***** | 92,339 | 83,513 | 79,686 | 58,871 |
| Shareholders' equity | 64,721 | 59,571 | 53,306 | 46,746 |
| Average capital employed | 97,747 | 88,101 | 73,972 | 57,858 |
| **SHARE DATA (per Common Share data in dollars)** | | | | |
| Common Shares outstanding at year end (000s) | 26,527 | 27,857 | 27,866 | 27,286 |
| Weighted average number of Common Shares outstanding (000s) | 27,597 | 27,847 | 27,475 | 27,058 |
| Earnings (loss) per Common Share | 0.30 | 0.23 | 0.21 | 0.24 |
| Funds flow (deficiency) from operations per Common Share (CFPS) | 0.68 | 0.61 | 0.58 | 0.50 |
| Price/Earnings ratio at year end (times) | 8.00 | 7.83 | 15.48 | 15.42 |
| Book value per share (year end) | 2.44 | 2.14 | 1.91 | 1.71 |
| Market value per share – high | 2.50 | 3.60 | 5.00 | 4.45 |
| – low | 1.36 | 1.50 | 2.95 | 1.95 |
| – year end | 2.40 | 1.80 | 3.25 | 3.70 |
| Dividends declared | 0 | 0 | 0 | 0 |
| **FINANCIAL RATIOS** | | | | |
| Return on average shareholders' equity | 13.2 % | 11.3 % | 11.5 % | 15.7 % |
| Return on average capital employed | 21.0 % | 18.5 % | 19.4 % | 25.5 % |
| Current ratio (times) | 1.75 | 1.77 | 1.70 | 1.71 |
| Total liabilities to equity ratio (times) | 1.43 | 1.40 | 1.49 | 1.26 |
| Rent, other operating leases, computer services, distribution activities and interest on long-term debt (including capital leases) coverage (times) | 1.50 | 1.42 | 1.47 | 1.58 |
| **STATISTICS** | | | | |
| Consolidated corporate stores same store sales increase (decrease) | 9.8% | (0.6 %) | 4.7 % | 8.0 % |
| Consolidated corporate operations inventory turnover (times) | 2.0 | 1.8 | 1.8 | 2.2 |
| Consolidated corporate store retail SF (year end) | 1,449,325 | 1,354,561 | 1,256,477 | 1,038,523 |
| Consolidated corporate store sales per SF**** | 255 | 237 | 251 | 253 |
| No. of Mark's Division corporate stores end of period | 132 | 127 | 122 | 114 |
| No. of Work World Division corporate stores end of period | 54 | 45 | 41 | 3 |
| No. of DOCKERS® Stores Division corporate stores end of period | 8 | 5 | N/A | N/A |
| No. of Mark's U.S. corporate stores end of period | N/A | N/A | 2 | 1 |
| No. of Mark's Division franchise stores end of period | 25 | 29 | 29 | 31 |
| No. of Work World Division franchise stores end of period* | 90 | 102 | 105 | 139 |
| Consolidated staff at year end | 2,863 | 2,271 | 2,512 | 2,145 |

* Mark's acquired Work World effective December 1, 1996 and during fiscal 1999, 31 Work World franchise stores were converted to corporate stores.

** The statements of cash flows exclude non-cash items, primarily non-cash working capital related to the acquisition of subsidiaries and franchise store purchases, capital assets acquired through capital leases and purchases of individual franchise stores by means of long-term debt.

| Jan. 1997 | Jan. 1996 | Jan. 1995 | Jan. 1994 | Jan. 1993 | Jan. 1992 | Jan. 1991 |
|---|---|---|---|---|---|---|
| 303,756 | 262,575 | 247,768 | 220,055 | 190,082 | 185,694 | 234,190 |
| 60,682 | 64,313 | 66,143 | 61,989 | 56,629 | 52,952 | 55,872 |
| 22,172 | N/A | N/A | N/A | N/A | N/A | N/A |
| 219,492 | 197,416 | 181,625 | 158,066 | 133,453 | 132,742 | 178,318 |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 1,410 | 846 | N/A | N/A | N/A | N/A | N/A |
| 83,969 | 73,481 | 66,853 | 58,067 | 48,390 | 46,783 | 55,725 |
| 38.01 % | 37.06 % | 36.81 % | 36.74 % | 36.26 % | 35.24 % | 31.25 % |
| 4,981 | 4,266 | 4,299 | 4,071 | 3,473 | 3,438 | 3,619 |
| 74,368 | 66,589 | 61,134 | 55,126 | 49,449 | 50,818 | 63,663 |
| 1,849 | 1,672 | 1,139 | 2,186 | 2,130 | 2,354 | 3,310 |
| 4,423 | 3,112 | 2,364 | 3,560 | 3,030 | 3,805 | 3,112 |
| | | | | | | |
| 8,310 | 6,374 | 6,515 | 1,266 | (2,746) | (6,756) | (10,741) |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | (2,564) | 128 |
| 4,387 | 3,257 | 200 | 0 | 0 | (561) | (4,259) |
| 3,923 | 3,117 | 6,315 | 1,266 | (2,746) | (8,759) | (6,354) |
| 14,582 | 11,158 | 10,018 | 7,012 | 2,414 | (3,161) | (4,191) |
| 10,159 | 8,046 | 7,654 | 3,452 | (616) | (6,966) | (7,303) |
| | | | | | | |
| 7,315 | 4,860 | 8,354 | 6,478 | 313 | (1,157) | (2,894) |
| 7,416 | (2,716) | (3,735) | 360 | (7,537) | (14,758) | 14,297 |
| (10,125) | (7,741) | (4,834) | 1,418 | 474 | 2,361 | (4,238) |
| 7,058 | 274 | 1,862 | (5,435) | 10,468 | (7,092) | (89) |
| 11,664 | (5,323) | 1,647 | 2,821 | 3,718 | (20,646) | 7,076 |
| | | | | | | |
| 70,377 | 57,101 | 56,074 | 50,173 | 38,195 | 44,387 | 51,268 |
| 45,304 | 34,845 | 31,217 | 30,923 | 23,325 | 39,991 | 44,488 |
| 25,073 | 22,256 | 24,857 | 19,250 | 14,870 | 4,396 | 6,780 |
| 14,608 | 11,853 | 7,439 | 5,590 | 8,909 | 8,955 | 12,306 |
| 7,368 | 140 | 118 | 182 | N/A | N/A | N/A |
| 94,822 | 72,187 | 64,541 | 56,395 | 47,635 | 54,528 | 72,465 |
| 11,952 | 4,025 | 3,000 | 3,000 | 8,166 | 3,280 | 8,465 |
| 57,938 | 40,033 | 35,619 | 35,650 | 31,968 | 43,775 | 52,953 |
| 36,884 | 32,154 | 28,922 | 20,745 | 15,667 | 10,753 | 19,512 |
| 43,775 | 34,175 | 27,924 | 24,845 | 20,325 | 22,572 | 31,516 |
| | | | | | | |
| 25,381 | 24,585 | 24,400 | 23,140 | 18,292 | 9,842 | 9,842 |
| | | | | | | |
| 24,976 | 24,515 | 23,187 | 22,392 | 15,794 | 9,842 | 9,840 |
| 0.16 | 0.13 | 0.27 | 0.06 | (0.17) | (0.89) | (0.65) |
| 0.29 | 0.20 | 0.36 | 0.29 | 0.02 | (0.12) | (0.29) |
| 12.31 | 9.62 | 6.30 | 23.33 | (4.41) | (1.17) | (1.77) |
| 1.45 | 1.31 | 1.19 | 0.90 | 0.86 | 1.09 | 1.98 |
| 2.20 | 1.85 | 1.95 | 1.79 | 1.40 | 1.50 | 2.65 |
| 1.10 | 1.15 | 1.12 | 0.74 | 0.70 | 0.75 | 0.90 |
| 1.97 | 1.25 | 1.70 | 1.40 | 0.75 | 1.04 | 1.15 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| 11.4 % | 10.2 % | 25.4 % | 7.0 % | (20.8 %) | (57.9 %) | (28.0 %) |
| 23.2 % | 23.5 % | 27.4 % | 13.9 % | (3.0 %) | (30.9 %) | (23.2 %) |
| 1.55 | 1.64 | 1.80 | 1.62 | 1.64 | 1.11 | 1.15 |
| 1.57 | 1.25 | 1.23 | 1.72 | 2.04 | 4.07 | 2.71 |
| | | | | | | |
| 1.45 | 1.43 | 1.51 | 1.11 | 0.70 | 0.35 | 0.18 |
| | | | | | | |
| 4.2 % | 1.3 % | 13.7 % | 14.6 % | 3.0 % | (18.3 %) | (1.0 %) |
| 2.3 | 2.1 | 2.4 | 2.4 | 2.3 | 1.4 | 2.5 |
| 927,972 | 814,977 | 657,775 | 600,028 | 587,881 | 547,685 | 547,983 |
| 245 | 266 | 289 | 268 | 240 | 242 | 296 |
| 107 | 102 | 94 | 91 | 91 | 86 | 91 |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 1 | 1 | N/A | N/A | N/A | N/A | N/A |
| 33 | 38 | 42 | 43 | 45 | 57 | 53 |
| 150 | N/A | N/A | N/A | N/A | N/A | N/A |
| 1,860 | 1,657 | 1,776 | 1,419 | 1,199 | 1,138 | 1,290 |

*** Excludes inter-group sales.

**** Calculated on stores open and at the same size for an entire season. The Company breaks the year into two seasons.

***** Within total assets or total debt as the case may be future income taxes reflect the asset/liability method of accounting for the January 27, 1996 year forward. The deferred income tax method is used in years prior to January 27, 1996.

N/A Not applicable

# Directors

### ART BERLINER (2) (3)

Mr. Berliner is a founding partner of the Walden Group, an experienced international venture capital firm managing funds in excess of $1.0 billion U.S. Mr. Berliner was invited to join the Board when Walden made a $1.6 million investment in Mark's Work Wearhouse Inc., in January of 1995, exchangeable into shares of the Company, to fund the Company's U.S. test at that time. The share exchange was completed on April 3, 1998. Mr. Berliner's experience as a director of private and public companies in the United States, including the U.S. retail sector, provides a valuable resource for the Company.

### CLARE COPELAND (2) (3)

Mr. Copeland has been a Director since the fall of 2000 and is currently Chairman and CEO of Ontario Store Fixtures Inc., North America's leading store fixture company. For the past 35 years, Mr. Copeland has held senior executive positions with major corporations such as Peoples Jewellers, Zale Corporation, Granada Canada, and Drake International. Mr. Copeland is also Chairman of Toronto Hydro and holds directorships with Danier Leather, RioCan, White Rose Crafts and Nurseries and several other Canadian companies. Mr. Copeland is also on the Advisory Board for the Richard Ivey School of Business and the Molson Indy Foundation.

### MICHAEL FOX (1) (2)

Mr. Fox, a director of the Company since 1981, became the non-management Chairman of the Board in January 1996. Currently owner of a successful business venture and private consulting practice in Whistler, British Columbia, Mr. Fox received his Bachelor of Commerce degree at the University of Manitoba and became a member of the Institute of Chartered Accountants of British Columbia in 1970. He was a partner of a national accounting firm in Vancouver until February 1981.

### MICHAEL LAMBERT

Mr. Lambert, Chief Financial Officer and a member of the Board has been with Mark's since 1994, other than for a brief period in 1999, when he was the Chief Financial Officer of Indigo Books, Music and More. Prior to joining Mark's Work Wearhouse, Mr. Lambert spent 15 years in progressive financial positions with major Canadian public companies including Loblaw Companies Ltd., George Weston Limited and the Southam Newspaper Group. In 1981, while at Coopers and Lybrand, Chartered Accountants in Toronto, Mr. Lambert obtained his C.A. designation. In 1978, he earned his Bachelor of Commerce degree from the University of Windsor.

Key: (1) Audit Committee Member
(2) Compensation Committee Member
(3) Governance Committee Member

### BRUCE R. LIBIN Q.C. (1) (3)

Mr. Libin, a director of the Company since July 1978, is President of B.R. Libin Capital Corp., an investment, merchant banking and investment banking advisory services company since 1995. Mr. Libin is also Chairman and Managing Director of Destiny Resource Services Corp., a resource services company since 1997 and December 2000 respectively. Prior to that, Mr. Libin was a partner with the law firm Bennett Jones. Mr. Libin is also a director of several public and private corporations and community organizations.

### GARTH MITCHELL

Mr. Mitchell's retail career spans more than 30 years as a merchant, commencing with senior management positions with the Hudson's Bay Company; seven years as a founding partner and President of a successful women's specialty chain; and seven years as the President of Department Store and Specialty Store Divisions of Comark, the Canadian Division of a large international retailer. Mr. Mitchell joined Mark's Work Wearhouse Ltd. as a Senior Vice President in 1991, became Chief Operating Officer in 1992, President and COO in 1994, and President and CEO in 1995. Mr. Mitchell is currently Chairman of the Retail Council of Canada, an Advisory Council member for Ryerson School of Retail Management, and is a past member of the Advisory Council for the Southern Alberta Institute of Technology.

### BRUCE REID (1) (2)

Mr. Reid retired as President and CEO of The Brick Warehouse Corp. in January 1997. Prior to The Brick, he held CEO positions in the retail industry in both Canada and the US and is currently a director of a number of private and public organizations. Since his retirement, Mr. Reid has taught in the MBA programs at The Richard Ivey (Western) and Michel G. DeGroote (McMaster) Business Schools and is currently completing a short-term assignment as President & CEO of RTO Enterprises Inc., where he also serves as a Director. Mr. Reid is a Past Chairman of the Retail Council of Canada.

### JAKE SCUDAMORE (1) (3)

Mr. Scudamore is President of Scudamore and Associates Inc., a corporate consulting company specializing in strategic planning, marketing and new media. He sits on an advisory board for George Brown College and was formerly Vice President, Marketing, of The Sports Network (TSN). Under his guidance, TSN won numerous national and international awards in virtually all marketing disciplines. Mr. Scudamore is a recipient of the Commemorative Medal for the 125th Anniversary of Canadian Confederation. Mr. Scudamore has been a director of the Company since January 1994.

# Corporate Information


**MARK'S WORK WEARHOUSE LTD.**
#30, 1035 – 64th Avenue S.E.
Calgary, Alberta T2H 2J7
**Telephone:** (403) 255-9220
**Fax:** (403) 255-6005


## INQUIRIES

**Customer Service**
Linda Mathiesen 1-800-663-6275

**Toll Free Customer Service Number**
1-800-663-6275; 1-800-663-MARK

**Website**
www.marks.com

**Industrial and Corporate Wear**
Jim Haigh (403) 692-7790

**Property Management**
Doreen Busby (403) 692-7571

**Store Design**
Michel St. Jean (403) 692-7502

Please call if we can assist you with any of your clothing or footwear needs.

## INVESTOR INFORMATION

Shareholders with inquiries regarding share transfer requirements, lost certificates, changes of address or the elimination of duplicate mailings should contact the Company's transfer agent, Computershare Investor Services in Calgary, Alberta (403) 267-6800.
Toll free 1-800-267-6555
e-mail caregistry@computershare.com

## INVESTOR RELATIONS INQUIRIES

Investors seeking other information about the Company may contact Karen Bentley at (403) 692-7572 or karen.bentley@marks.com

## INTERNET SITE

To access Mark's corporate and divisional store, product or financial information, including quarterly reports, quarterly analyst presentation materials and news releases, visit our Internet site http://www.marks.com.

## NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Wildrose Ballroom of The Sheraton Suites Eau Claire Calgary on Wednesday, June 13, 2001 at 11:00 a.m.

## SENIOR OFFICERS

### Corporate Services

**Garth Mitchell**
President and Chief Executive Officer

**Michael Lambert**
Chief Financial Officer

**John Murphy**
Senior Vice President, Treasurer and Secretary

**Robin Lynas**
Chief Information Officer

**Linda Mathiesen**
Vice President, Human Resources and Customer Service

**Michel St. Jean**
Vice President, Store Design

**Randy Wiebe**
Vice President, Controller

### Mark's Division

**Paul Wilson**
President and Chief Operating Officer

**Richard Harrison**
Senior Vice President, Merchandising

### Work World Division

**Michael Strachan**
Chief Operating Officer

**Roy Jopling**
Vice President, Operations

### DOCKERS® Stores Division

**Cathy Prosser**
General Manager

## BANKERS

Canadian Imperial Bank of Commerce, Calgary
Bank of Nova Scotia, Calgary
National Bank of Canada, Calgary

## LEGAL COUNSEL

Bennett Jones
Barristers and Solicitors, Calgary

## AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants, Calgary

## TRANSFER AGENT

Computershare Investor Services of Canada, Calgary

## LISTING OF COMMON SHARES

The Toronto Stock Exchange
Trading symbol – MWW or Mark Wrk

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MARK'S WORK WEARHOUSE LTD.

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L'ÉQUIPEUR DIVISION
WORK WORLD DIVISION
DOCKERS® STORES DIVISION